STARTING A WINERY IN ONTARIO

Publication 815

Ministry of Agriculture and Food

Ministry of Rural Affairs

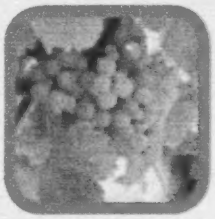
Ontario

Acknowledgements

We wish to acknowledge the extensive work of Mary Jane Combe, Grape Growers of Ontario and Sarah M. Sinclair, Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs in the preparation of this publication.

This publication was also prepared with the help of the following people and organizations: Alcohol and Gaming Commission of Ontario; Excise Duty Operations, Alcohol Excise and GST/HST Rulings Directorate, Canada Revenue Agency; Liquor Control Board of Ontario; Ontario Ministry of Environment; Grape Growers of Ontario; Winery and Grower Alliance of Ontario; Ontario Tender Fruit Board; J. D. Gibson, Wine Council Ontario; Denise Dagenais, Ontario Ministry of Finance; Laurie Macdonald, Vintners Quality Alliance of Ontario; and Erin Panek, Amy Taylor, Joanne Moores, Lorne Widmer and Rob Gamble, Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs.

Cover photos courtesy of the Grape Growers of Ontario and purchased photos from Shutterstock.com.



Aussi disponible en français.

Need technical or business information?

Call the Agricultural Information Contact Centre at 1-877-424-1300 or ag.info.omafra@ontario.ca

Order information

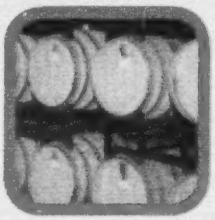
To obtain copies of this or any other OMAF and MRA publication, please order:

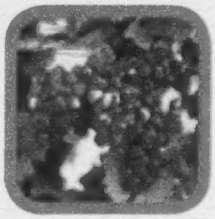
- online at *www.serviceontario.ca/publications*
- by phone through the ServiceOntario Contact Centre Monday to Friday, 8:30 AM to 5:00 PM ET:
  - 416-326-5300 – 1-800-668-9938, toll-free across Canada
  - 416-325-3408 (TTY) – 1-800-268-7095 (TTY), toll-free across Ontario
- in person at ServiceOntario Centres across Ontario

A complete listing of all OMAF and MRA products is available at *www.ontario.ca/omaf*

Published by the Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs
©Queen's Printer for Ontario, 2013
Toronto, Canada
ISBN 978-1-4606-2425-8
10-13-.1M

Table of Contents





1. Introduction to the Wine Industry

Organizations in the Wine Industry 1

Organizations for Winemakers 2

Tourism and the Ontario Wine Industry 3

From Grapes to Wine 3

Steps in Starting a Winery Business 4

2. Planning Your Winery Business

The Strategic Plan 6

The Vision Statement 7

The Mission Statement 7

Strategic Analysis 8

Analyzing Critical Issues 9

Developing Your Strategy 9

Implementing the Strategic Plan 11

The Feasibility Analysis 11

Demand Analysis 11

Technical Analysis 12

Cost Analysis 12

Sensitivity Analysis 12

Financial Analysis 12

The Business Plan 12

Marketing Plan 13

Human Resources Plan 13

Production Plan 13

Financial Plan 14

Executive Summary 14

Managing Risk 17

Systemic Risks 17

Uncontrollable Business-Related Risks 18

Controllable Business-Related Risks 18

Insuring Your Business 21

3. Starting Your Winery Business

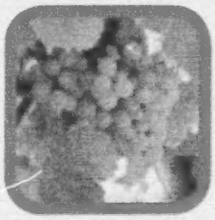
Organizing the Winery 24
Types of Business Organization 24
The Business Advisory Team 26
Registering Your New Business and Federal Licences 26

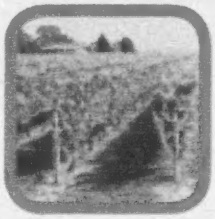
Municipal Regulations 27

Provincial Regulations 28
Environmental Regulations 28
Federal Regulations 29

Setting Up Your Winery Business 30
Planning the Wine Production System 31
Designing the Production System 33

Managing Capital Costs 35





4. Regulations, Licences and Authorizations

Acts and Regulations 36
Licences 37
Policies and Authorizations 38

Regulatory Organizations 39
Ontario Farm Products Marketing Commission (OFPMC) 39
Vintners Quality Alliance Ontario (VQAO) 40
Alcohol and Gaming Commission of Ontario (AGCO) 40

Liquor Control Board of Ontario (LCBO) 51
Quality Control 51
Product Packaging Standards 51
Winery Warehouse Authorization 52
Audit Services 52

Federal Requirements 53
Wine Licence to Produce or Package Wine 53
User's Licence to Fortify Wine 53
Additional Information 54

Forms and Information 54
VQA Ontario 56

5. Quality Considerations and Wine Origin and Quality Programs

Importance of Quality Control 57

Quality Control Standards 57

The Fruit or Juice 58

Chemical Testing 58

Organoleptic Testing 58

Premises Inspection 59

Food Safety and Quality Control Systems 59

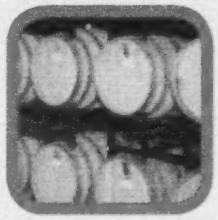
Good Manufacturing Practices (GMPs) 60

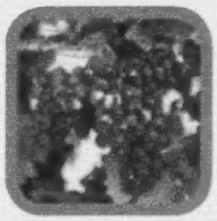
Hazard Analysis Critical Control Point (HACCP) 60

Food Safety Management Systems 60

Vintners Quality Alliance Ontario (VQA Ontario) 61

Fruit Wine Quality Certified (QC) 63





6. Financial Plan

Capital Investment Required 66

Estimating Fruit and Wine Requirements 67

Effect of Pricing on Gross Profit 67

Projected Wine Production, Estimated Cash Flow and Summary of Projected Income and Expenses 67

Adjustments for a Fruit Winery 68

7. Marketing Your Wine and Winery

The Four Ps of Marketing 69

Product 69

Promotion 71

Price 76

Place 77

Positioning Your Product 79

Exporting Wine 80

Exports to Europe 81

Export Trade Assistance 81

International Trade Training Programs 82

LCBO Marketing Programs 82

LCBO Pricing 83

Uniform Prices 83

Floor Price 84

Pricing Structure for Ontario Wine 85

Selling Directly to Licensed Establishments 87

8. Excise Licence, Duties and Taxes

Federal Excise Duty 91

Application for Excise Tax Licence(s) 91

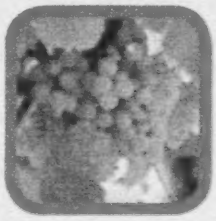
Filing an Excise Duty Return and Remitting Duties 91

Rates of Excise Duty 92

Canada Customs Duty (Tariff) 93

GST/HST 93

Related Websites 95



Appendix 1

Government Organizations 96

Ontario 96

Canada 97

Appendix 2

Industry Organizations 98

Appendix 3

Educational Institutions 99

Appendix 4

Key Definitions 100

List of Tables

Table 1-1: Considerations and Licensing for Starting a Winery 4

Table 2-1: SWOT Factors, Effects and Strategies 10

Table 2-2: Managing Risk Factors 19

Table 3-1: Steps in Setting up Your Winery Business 30

Table 3-2: Factors in Planning the Winery 32

Table 4-1: Provincial and Federal Licensing Options 38

Table 4-2: AGCO Licensing and Authorization Fees 44

Table 4-3: Summary of Agencies, Regulations, Licences and Authorizations Governing the Wine Industry in Ontario 55

Table 4-4: AGCO Forms and Information 56

Table 5-1: Summary of Quality Control Contacts for All Wines 59

Table 5-2: Categories of Fruit Wines 64

Table 7-1: Statistically Valid Sample Sizes for Market Research 75

Table 7-2: Minimum Retail Price (MRP) for Bottled Wine and Cider 84

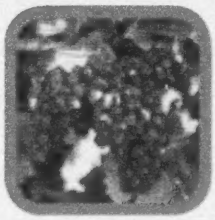
Table 7-3: Components of Price of Wine Sold by LCBO 86

Table 7-4: Pricing Examples by Sales Channel – VQA Wines 88

Table 7-5: Wine Fees and Taxes 90

Table 8-1: GST/HST Reporting Periods 94

Table 8-2: Excise Duty, HST and Related Forms Required 95



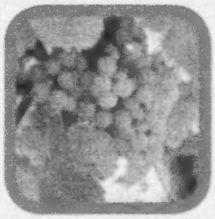
List of Figures

Figure 3-1: Design of Winery, Retail Store and Tied House 34

Figure 4-1: AGCO Licensing Procedures: Winery 50

Figure 4-2: AGCO Licensing Procedures: Winery Retail Store 50

1. Introduction to the Wine Industry



Starting a Winery in Ontario serves two purposes:

- To help prospective winemakers understand the complexities of managing a commercial wine business in Ontario.
- To guide commercial vintners through the process of preparing a business plan for establishing and operating a commercial winery in Ontario. A step-by-step reference to the rules, regulations, agencies and policies that govern the establishment and operation of a winery and winery retail store (WRS) in Ontario, and the organizations needed to start, grow and operate a winery business.

There are eight main sections that cover the following information:

1. introductory information for prospective new winery owners
2. the importance of business planning
3. different types of business structures
4. regulatory considerations
5. quality control
6. overview on capital investments, equipment and financial planning
7. marketing
8. excise licences, duties and taxes involved in the wine industry

Tables throughout this guide provide useful summaries of information in each chapter for easy reference.

Organizations in the Wine Industry

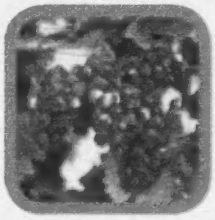
There are five main regulatory organizations involved in the Ontario wine industry. A brief introduction is provided here, with more detail in *Section 4*. A list of contacts can be found in *Appendix 1* and definitions are in *Appendix 4*.

Alcohol and Gaming Commission of Ontario (AGCO) is a regulatory agency for the beverage alcohol industry. AGCO reports to the Ontario Ministry of the Attorney General (MAG) and issues licences, permits and authorizations pertaining to the sale and service of beverage alcohol.

The **Canada Revenue Agency** (CRA) administers the tax programs for the Government of Canada and for most provinces/territories. The Excise Duty Program of the CRA issues the federal licence to produce or package wine in Canada, collects excise duties and inspects licensed premises. The CRA also issues business numbers and program accounts including HST, corporate income tax and import export, and collects taxes.

As of July 1, 2010 the **Ontario Ministry of Finance** administers the beer and wine taxes on all purchases other than those administered by the Liquor Control Board of Ontario (LCBO).

Ontario Farm Products Marketing Commission (OFPMC) is an agency of the Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs (OMAF and MRA). OFPMC administers the *Farm Products Marketing Act* and issues licences to process grapes and certain other fruits that are regulated by marketing boards.



Vintners Quality Alliance Ontario (VQAO) is a not-for-profit corporation designated by the province of Ontario as the wine authority to administer and enforce the Ontario *Vintners Quality Alliance Act, 1999* and its associated regulations. VQAO has the power to establish, monitor and enforce an appellation of origin system including Designated Viticultural Areas (DVAs), and define and enforce the content and quality standards VQA wine must meet to use regulated terminology.

Organizations for Winemakers

The **Grape Growers of Ontario** (GGO) is the marketing board and industry association representing Ontario's growers who sell grapes for processing. GGO is the official organization operating under the authority of the Farm Products Marketing Commission, and is the advocate of all processing grape growers in Ontario working to ensure their grape growing needs are met. GGO provides many benefits and services for their grower-members to help them produce the best quality grapes, protect their investments in land and plantings, and achieve profitability in the marketplace. All grape growers and processors require a GGO grower or processor number. A letter of confirmation from the GGO is required as a condition of the Manufacturer's Licence.

The **Wine Council of Ontario** (WCO) is the trade industry association of VQA wine manufacturers in Ontario. WCO administers marketing programs for the Ontario wine industry and works closely with the Liquor Control Board of Ontario (LCBO) and various ministries of the provincial government. Membership in the WCO is voluntary.

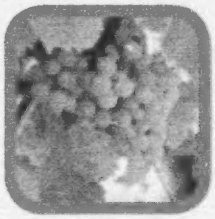
The **Winery and Grower Alliance of Ontario** (WGAO) is an industry association with winery and grower members. The association represents the vast majority of wine produced in Ontario including VQA and International Canadian Blend (ICB) wines. WGAO works closely with government ministries and the LCBO to grow the value and profitability of the Ontario grape and wine industry. Membership in the WGAO is voluntary.

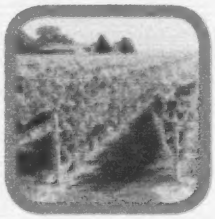
Ontario Tender Fruit Producers' Marketing Board (OTFPMB) represents all growers of peaches, nectarines, pears, plums and prunes for fresh markets, and all growers of peaches, pears, plums and sweet or sour cherries for processing markets, under the authority of the Farm Products Marketing Commission. A letter of confirmation from OTFPMB is required as a condition of the Manufacturer's Licence for fruit (non-grape) wineries.

Canadian Vintners' Association (CVA) is a national association of wineries. CVA represents member issues of a national scope, such as export and inter-provincial sales and national standards and regulations. Membership in the CVA is voluntary.

Fruit Wines of Canada (Ontario) (FWC) is an association of Canada's leading fruit wine manufacturers. The Ontario chapter is called Fruit Wines of Ontario. Fruit Wines of Canada has created an official quality standard for Canadian fruit wines called Quality Certified (QC).

Contact information for these organizations and regional winery associations is in *Appendix 2.*





Tourism and the Ontario Wine Industry

Wineries play an important role in regional tourism. In 2012, an estimated 1.6 million Ontarians visited wineries in Ontario, making up 83% of the total travelers to wine country in Ontario. Winery tours and tastings are popular events around the world. The more attractive the winery and the more interesting the selection of wines, the more popular the winery will be.

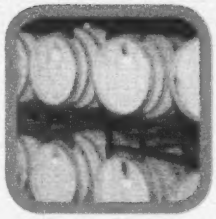
Areas with a high concentration of wineries can create special interest areas for tourists. The Niagara Wine Route, for example, attracts hundreds of thousands of visitors every year. Other wineries are listed on tourism maps that promote special features in their districts. Wineries can increase their visibility by having their products on the wine lists of local restaurants and participating in local tourism events. Special events held at the winery attract visitors from both local and adjoining regions.

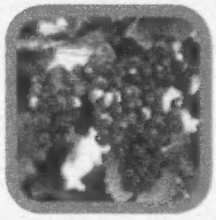
There are great opportunities for Ontario wineries. Wine regions are expanding and Ontario consumers are drinking more Ontario-grown wines than ever before.

From Grapes to Wine

The financial investment and time required to establish a vineyard means that additional time and consideration should be given to the grape production aspect. There is a lot to know about grape production before starting a winery. Ontario currently has three Designated Viticulture Areas (DVAs) called appellations in Niagara Peninsula, Lake Erie North Shore and Prince Edward County. Within the Niagara Peninsula, 10 distinct growing areas or sub-appellations have been identified through experience and geographic research. There are also vineyards and wineries being established in non-traditional regions that have additional climatic concerns. There are close to 200 wineries and 500 grape growers in Ontario, with wine sales exceeding $640 million annually. The excellent growing conditions in Ontario (soil and climate) produce high quality wines, and the industry has been growing steadily.

Before starting a winery, consider how the grapes will be obtained. Will a new vineyard be established? If so, detail the costs of establishing the vineyard. What variety, rootstock or training system will be used? Full production from a new vineyard could take up to five years. If you are not prepared to establish a vineyard or wait until your own grapes are available, will grapes be purchased from other growers? Are growers available and willing to contract the grape supply needed? What are the AGCO and municipal regulations regarding wineries, minimum vineyard sizes and sources of grapes?





Grape yields and price are extremely variable. Growing grapes for wine requires an understanding of the climatic conditions, time requirements (planting, harvesting, spraying), production requirements (varieties, rootstocks, quality, pest management) and production costs involved. Information and publications on growing grapes can be found on the Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs (OMAF and MRA) website at *www.ontario.ca/omaf*

Steps in Starting a Winery Business

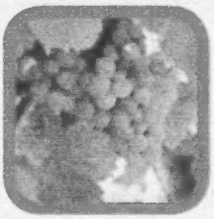
Starting a winery is a complex process. There are the usual elements involved in developing a business, plus the added regulations, licences, authorizations and approvals for the manufacture, management and sale of a regulated, restricted product like wine.

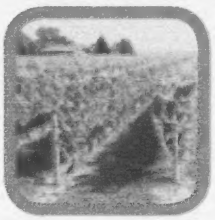
Table 1-1 summarizes the steps needed to establish a successful winery business in Ontario. Some steps apply to businesses, some apply to the manufacture and sale of wine, and some apply to winery retail stores that sell wine to consumers. A few steps apply only if fortified or specialty wine products are made, or if wine and meals are served in a restaurant or "tied house" associated with the winery.

Table 1-1: Considerations and Licensing for Starting a Winery

Considerations and Licensing	Activity	Provider
Winery Business Concept	• Decide business organization type • Prepare a strategic plan • Conduct feasibility study and analysis • Develop business plan (including marketing plan)	Owner Owner Owner Owner
Develop the Business	• Register the business • Request for Business Number • Apply for federal licence(s) • Apply for relevant zoning, building, occupancy permits, etc.	MCS CRA CRA Municipal
Prepare to Manufacture Wine	• Register to market grapes • Register to process grapes • Obtain Licence to Process Grapes • Obtain Licence to Process Tender Fruit • Establish Quality Control Process	GGO GGO OFPMC OFPMC Owner

Considerations and Licensing	Activity	Provider
Sell Wine	· Manufacturer's Licence Application · Ontario Vendor's Permit · Product Management Policy and Procedures	AGCO MOF LCBO
Establish Quality Control Policy	· Submit LCBO Site Inspection Application · Obtain Laboratory Guidelines for Chemical Analysis · Review and submit VQA requirements/ documentation if required · Make VQA Membership Application · Make VQA Wine Approval Application · Submit VQA Late Harvest Product Monitoring Form	LCBO LCBO Owner VQAO** VQAO** VQAO**
Warehousing	· Determine off-site warehousing policies, regulations and licensing requirements that may apply*	LCBO CRA
Winery Retail Store Operation	· Obtain Winery Retail Store Authorization · Obtain Retail Guidelines	AGCO AGCO
Hire an Agent	· Agent Completes Licence to Represent a Manufacturer	AGCO
Design Labels	· Review Labelling Standards and make request for Label Examination (optional) · Review excise duty label requirements	LCBO CRA
Product Listing (LCBO)	· Make application for listing*	LCBO
Tied House/ By the Glass	· Make Application and Guide for a New Liquor Sales Licence (Tied House)* · Apply for Manufacturer's Limited Liquor Sales Licence (by the glass) · Obtain Food Premises Regulation Approval* · Train Servers in Smart Serve® training	AGCO AGCO MOH Smart Serve Ontario
Delivery	· Obtain Direct Delivery to Licensees Authorization (winery only) · Obtain Third-Party Carrier Authorization	LCBO AGCO





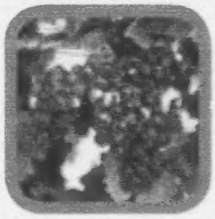
*Usually not required for a new winery

**Required for VQA wines

MCS – Ontario Ministry of Consumer Services, MOF – Ontario Ministry of Finance, MOH – Ontario Ministry of Health and Long-Term Care, CRA – Canada Revenue Agency, LCBO – Liquor Control Board of Ontario, AGCO – Alcohol and Gaming Commission of Ontario, VQAO – Vintners Quality Alliance of Ontario

Beverage alcohol is a regulated product. All of the quality control and safety steps will help you compete in this highly competitive industry. Review this book and become familiar with the processes involved in building and operating a winery, and see how they fit into a plan for operating a winery in Ontario.

2. Planning Your Winery Business



Starting a winery business costs hundreds of thousands, if not millions, of dollars. This type of venture requires a significant amount of planning. A rule of thumb suggests that *10% of the cost of establishing a business should be spent on planning for its success.* It pays to plan.

Developing and operating a winery has four components – planning, business management, winemaking and marketing. No winery will be successful without good wine to sell. Careful business planning and sound management are also important to success.

This section describes the basics of business planning theory and offers practical advice to help new winery owners improve their prospects for financial and personal success through sound decision making and analysis.

Business planning falls into three categories:

- the strategic plan
- the feasibility analysis
- the business plan

The Strategic Plan

Strategic planning determines what the winery business will look like down the road, and plans for how to make that happen. The plan results in a business strategy – the way to reach your objectives.

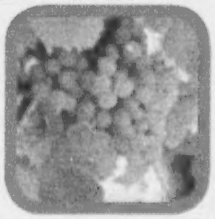
This planning process requires imaginative thinking and honesty. It is an opportunity to visualize the business venture and lifestyle, and then modify it by carefully considering what can realistically be achieved in a given timeframe. Strategic planning can be a great deal of fun. Involve the entire family in the planning, and any business associates and significant employees who will be affected by the outcome.

There are six main components to the strategic plan:

- the vision statement
- the mission statement
- strategic analysis
- analyzing critical issues
- developing your strategy
- implementing your strategic plan

The Vision Statement

How do you want your business to look in five years? In 10 years? Visualize the kind of winery you would be proud to own and can optimistically hope to achieve. Visualize the kind of product services you wish to offer customers.



A vision statement may read something like this:

Sample Estates Winery will make and sell the finest wines in the Trout River Valley.

The Samples see themselves as makers of the highest quality wines in their area. Note that they have not yet defined how they are going to make that happen or what their marketplace will be.

Keep the vision statement to one sentence and two or three lines long. Print it neatly, frame it and place it on your office wall. Look at it daily, throughout the planning process and as you go about your business. Vision statements act as a guide in daily decision making. If any decision will not contribute toward achieving that vision, assess whether it is a correct decision. The vision statement might form the first sentence of the executive summary of the business plan.

A more commercial vision statement might read:

Sample Two Estates Winery will net its owners a wealthier lifestyle from the fifth year onward.

While this vision may be hard to achieve, it may be an honest declaration of the Sample Two's intent to create a financially rewarding winery.

The Mission Statement

The mission statement outlines what your preferred course of action will be, who your preferred customers will be and how you will achieve your vision. In other words, what you plan to do, for whom and why you are uniquely valued.

Mission statements reflect your winery's values, culture and philosophy, and provide a focal point to check all future planning exercises or strategic directions against. The mission statement may be modified several times during the planning process as things change.

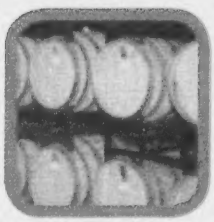
The mission statement may read something like this:

Sample Estates Winery will build a reputation for quality and service that exceeds the expectations of discerning customers.

This statement indicates the Samples' intention to develop an elite winery and attract customers willing to pay extra for a fine wine.

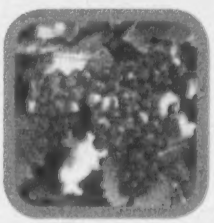
A competing winemaker might produce a different mission statement:

Sample Two Estates Winery will make and serve quality wine to satisfy both the palate and the budget.



This statement identifies the Sample Two's target customer as a price-conscious, but discerning, customer who seeks wines for all occasions. It values the everyday buyer and repeat business.

Strategic Analysis



Strategic analysis is an in-depth look at factors that will help or hinder you in achieving your vision and carrying out your mission. This analysis involves gathering facts from many sources and confirming that the information is correct.

There are many ways to conduct a strategic analysis. One popular method that ensures all areas are considered is a **SWOT analysis** – **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats.

Strengths are the *internal features* of a business organization that help it to succeed. Here are some examples:

- Susan is a skilled winemaker.
- Joe has strong analytical skills.
- Mary is good at meeting people and would excel at running the store.
- We have a good capital reserve.
- We have an excellent orchard and/or vineyard.
- We have a building that can easily be converted to an attractive winery retail store.

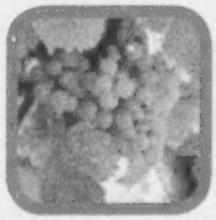
Weaknesses are *factors within an organization* that may prevent you from achieving your goals. They indicate areas that may require hiring outside expertise, training existing staff or limiting responsibilities to certain people. Some examples are:

- Nobody is particularly good at accounting or budgeting.
- Sam often makes snap decisions and holds to his opinions without much analysis.
- We do not have all of the best grape varieties.
- We have very little equity.
- Our winemakers have no experience in commercial winemaking.

Opportunities are *external factors* that may benefit a business. Taking advantage of these factors will improve your competitive position. Here are some examples:

- We are located in a Designated Viticultural Area.
- We are located on a busy commuter route.
- There are good tourism initiatives in the area.
- There is no other winery serving this community.

Threats are *outside influences* that are outside your control. They may seriously impede your business, or even prevent you from having a winery. Consider these examples:



- A short growing season makes fruit production difficult.
- The municipal council refuses to grant new business licences.
- We can't get enough financing to proceed with our plan.
- There is no fruit grown within our area, but regulations require that we use locally grown fruit.
- We are not sure our grapes/wines will be eligible for or get VQA status.

The SWOT analysis is an ongoing process. As planning progresses, new winery owners will continue to gather information. Returning to the SWOT analysis on a continuing basis will build credibility and confidence into the final result.

Analyzing Critical Issues

Consider which issues have the greatest impact, positive and negative, on your ability to establish a winery? Rank them according to impact.

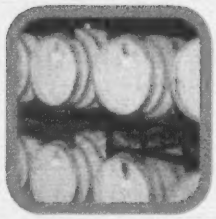
- Will any of these issues make it difficult or impossible to succeed?
- How great is the risk?
- Have we been honest about the abilities of our working partners?
- Do the *strengths* and *opportunities* outweigh the *weaknesses* and *threats*?

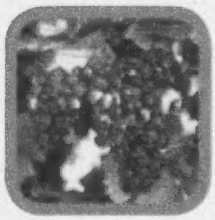
Developing Your Strategy

Consider what effect each SWOT factor has on your ability to establish a winery. What can or cannot be done to take advantage of the strengths and opportunities, or to overcome the weaknesses and threats. Table 2-1 provides examples of SWOT factors and strategies to address them.

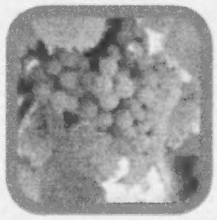
Table 2-1: SWOT Factors, Effects and Strategies

SWOT Factor		Effect	Strategy
Strength	We have an excellent orchard/ vineyard	• Reliable source of raw material at the cost of production	• Look at options for adding value: winery, juice supply, farm store, etc.
Strength	Existing buildings will convert into winery and store facilities easily	• It won't cost a lot to construct this part of the winery	• Proceed with the rest of the planning
Weakness	We don't have good accounting skills	• Our records don't give us enough information to make decisions	• Hire a good management accountant and set up a workable system
Weakness	Susan makes excellent wine but has no experience with large volumes	• Our first wines may not be well accepted or production of good wine could be inconsistent	• Susan to enroll in an oenology training program • Hire a consulting winemaker in the interim • Delay startup
Opportunity	Located on busy commuter route	• Customers should be easy to attract	• Go to municipality for permits and zoning ruling • Start to design a sign announcing new winery location
Opportunity	There is no other winery serving this community	• We should have little competition for a specialty winery	• Determine why there are no other wineries • Plan a market survey to find out how a winery will be received in the community
Threat	Bank will not finance because of low equity	• Prevents us from buying equipment • Operating funds • Carrying inventory	• Look for used equipment • Start smaller • Look for another source of credit • Look for a financial partner
Threat	Cannot grow fruit well because of climate	• Cannot meet AGCO requirement for on-site fruit growing • Risk inconsistent supply	• Look for new location in a fruit-growing area or an existing orchard/ vineyard
Threat	Cannot guarantee our grapes/wines will be eligible for or get VQA status	• Gross margins on sales are uncertain	• Research VQA requirements and pricing regimes • Consider contingency plan if some or all wines are not VQA approved





Look for creative ways to solve problems and take advantage of positive circumstances. Ongoing, objective analysis of each situation will help develop successful business strategies. Understanding risks and having a game plan to manage them will increase your chance of a successful startup.



Implementing the Strategic Plan

Each of the strategies in Table 2-1 has a number of tasks that need to be done. Each task requires time, allocation of human resources and a timeframe to complete it. This is where the hours of thought, discussion and argument that go into planning begin to pay off. Here is an order of events to start the planning:

- List the tasks that arise from the strategies.
- Establish time frames for completion of tasks and specific results expected.
- Delegate tasks to those who are most suited to the job.
- Set meeting times to monitor the progress of each task, to solve problems and to review the plan.
- When the plan is complete, celebrate with a good dinner and a glass of fine Ontario wine. Congratulate everyone on a job well done. It's now time to examine the feasibility of the idea.

The Feasibility Analysis

Take another look at your vision statement. Given your resources and needs, can you achieve your dream? That's what the feasibility analysis tells you. This analysis also helps collect the information needed for your business plan, and provides the confidence to know your new winery will fulfill your expectations and vision.

There are five steps to a feasibility analysis:

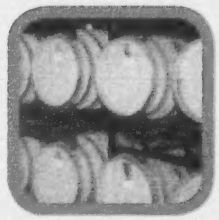
- demand or market analysis
- technical or production analysis
- cost analysis
- sensitivity analysis
- financial analysis

Demand Analysis

The demand analysis might tell you that, in your first year of operation, you can reasonably expect to sell 1,000 cases of Riesling, 1,000 cases of Chardonnay and 500 cases of Cabernet, all at $12 a bottle. It might also reveal there is not a good market for Pinot Noir in your area, and you can expect to increase production by 50% in the second year and 10% in each of the next three years.

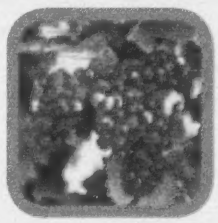
Technical Analysis

The technical analysis identifies the process and equipment necessary to establish a commercial winery of the size identified in the demand analysis, and what it will cost. It could include the analysis of human resources already completed in the SWOT analysis, and also identify whether the location is suited for growing the type of wine grapes or fruit needed to meet market demand.



Cost Analysis

Record all of the costs identified in the other analyses to give accurate startup and operating costs for the winery and/or winery retail store.



Sensitivity Analysis

This analysis looks at the "what ifs" of the planning process. For example, what would be the effect on sales if your winery was located on road A instead of road B, or if you charged $14 a bottle instead of $12, and it reduced sales by 5%?

Financial Analysis

Look at your vision and mission statements again. Will this plan fulfill your economic goals? What income and cash flow will your winery yield? What return can you expect from your investment? How will you finance the startup costs and building of inventory?

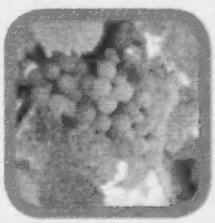
The Business Plan

Starting a winery requires a major investment of time, money and personal initiative. The high capital investment, length of time before cash flow begins and slow turnover of inventory means there will be a long period of time without income, while paying interest on the capital borrowed.

A working business plan helps in several ways:

- It ensures you have investigated all aspects of the business *before* making the investment. Not all success factors are financial. A complete business plan examines all factors, such as marketing skills, human resources management and personal attributes needed to develop and operate a winery. Keeping an eye on the pitfalls and options available will help avoid traps that can sink a new business venture in the first, vulnerable years of life. Keep vision and mission statements front and centre during the process. The business plan is the fulfillment of these two statements.
- Lenders insist on it. Money-lenders want to know that loans will be paid back and that they will receive a good return on their investment. Owners should want the same thing – making a good plan on paper assures all parties that their investments are sound.

- The business plan acts as an operational guide for the new business. Checking the plan frequently lets you know if your progress is on target, and may give clues to problems that arise. This type of plan is more comprehensive than what is required by the Alcohol and Gaming Commission of Ontario (AGCO) for the Manufacturer's Licence, but is extremely important to lenders, partners and owners.



The business plan is made up of *four smaller plans,* plus an executive summary. They are:

- the marketing plan
- the human resources plan
- the production plan
- the financial plan

Marketing Plan

No business can succeed without effective marketing, and wineries rely heavily on a good marketing strategy. The regulatory aspects related to marketing alcoholic beverages or wine dictates that the marketing plan is usually the first component developed in the business plan for a winery. Marketing is covered in more detail in *Section 7.*

Human Resources Plan

Even the smallest wineries rely on people. From the winemaker to the store operator and sales clerk, each person must know what is expected of them and how they will be rewarded. In the wine business, a combination of skills in viticulture, winemaking, marketing and business is essential. Neglecting any one area can undermine the rest. The success of any business depends on managers working together toward a common purpose, and being able to amicably solve disagreements that are in the best interests of the business.

The human resources plan indicates how all areas of the business will be staffed and the skills needed to perform those tasks. Include rates of compensation, bonuses and incentive plans. List the training plans for key employees, and indicate the frequency and timing of staff and board meetings.

Production Plan

A production plan contains the details of making wine from vine to customer, and depends on the style of wine and number of varietals and brands you will be making, based on the marketing plan. Key things to know are the equipment and space required, how the process of making the wine and getting it ready for buyers will take place, and what it will all cost. The production plan includes the layout of the system, identifying floor plans, storage areas, equipment sizes and costs.

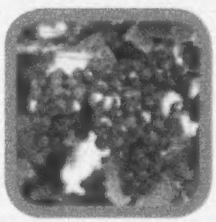
Capital and operating costs are calculated and recorded in the financial plan, and human resources needs are recorded in the human resources plan.

Financial Plan

Learn whether your winery will be financially successful when you transfer the costs and returns expected from the other plans to your financial plan. The financial plan includes a *projected income* statement, *balance sheet* and three to five years of *projected cash flow* statements. List anticipated capital purchases, sales, a financing schedule and a debt-servicing worksheet. Many financial plans also include statements of *return on investment* for both the owner and lenders.

Executive Summary

The executive summary is a one- to two-page summary of the business plan at the beginning of the plan. This summary gives lenders and others a quick overview of how the business will function and how successful it should be.



Each part of the business plan is linked to the other parts of the plan. For example, people involved in marketing or wine production will appear in the human resources plan, while the associated costs will be recorded in the financial plan. Similarly, the marketing costs and returns are summarized in the financial plan. This interdependence helps ensure that all considerations have been assessed.

To satisfy the needs of the financial institutions and meet AGCO requirements for a Manufacturer's Licence include resumés of owners, partners and key personnel; names of professional advisors; letters of reference and other supporting documents.

Business plan forms and computer templates are available from most banks, business improvement associations and in software stores. Many of these are simply financial plans that leave out other factors important to success, such as marketing, human resources, and production planning and analysis. Complete business planning templates are available to help organize material and prepare the final plan. Consider completeness of the planning process, and not the cost of the template, when selecting a business planning template.

Business plans are most effective if written by the business owner. The necessary research in regulatory and business requirements will help you understand the details of the plan and how it relates to day-to-day operations. Take this opportunity to explore the different parts of the business, especially where you do not have personal expertise, so you understand the potential challenges. You will also be able to respond to any difficult questions the lender asks.

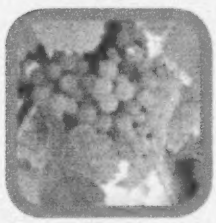
Using a management accountant, chartered (tax) accountant and lawyer to assist in the planning process will help reduce errors and ensure tax and legal considerations are accurately portrayed. If the task of writing the business plan is delegated to these professionals, the owner must provide accurate and complete information, and keep a strong line of communication open with all parties involved in the business planning process.

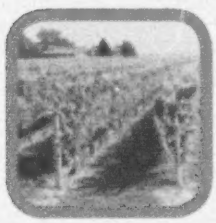
Further information can be found at the OMAF and MRA website under *Business Planning* at *www.ontario.ca/agbusiness*

There are 10 key components to a complete business plan.

1. Executive summary

- Opportunity for profit and return
- Description of products and markets
- Expertise and experience of management team
- Financial highlights
- Financing and payback period required
- Return on investment





2. Table of contents

- Completed after the plan is written

3. Mission statement

- Covered in the strategic plan

4. Business history

- Date of incorporation
- Present shareholders
- Past successes of shareholders
- Financial highlights
- Present financing
- Security offered to lenders

5. Key objectives

- Competitive strategies for what the winery will achieve in three to five years
- Shorter-term goals
- Strategies for achieving market share

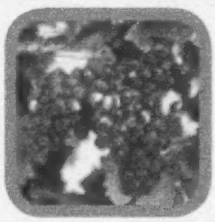
6. Marketing plan (see Section 7)

- Define target market – what is in demand
- Product – description, labeling, unique features and selling points, product development policies and product profitability
- Competitor analysis – identify major competitors, percent of market, strengths and weaknesses, prices and major customers
- Internal analysis – product benefits, customer service strategy, competitive advantage

- Pricing – strategy, price vs. quality sensitivity, margins in different sales channels
- Distribution system – delivery process and cost
- Promotion – advertising and promotion strategy and cost, in-store features and ambience, budget and expected returns

7. Production plan

- Layout design
- Work flow
- Equipment requirements
- Space requirements
- Raw materials supply
- Volume estimates
- Aging and storage requirements (include bonded space)



8. Human resources plan

- Management personnel, skills inventories and employment histories
- Labour requirement and availability of skilled labour or consultants
- Estimates of employee and management costs

9. Financial plan

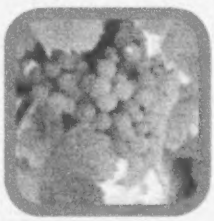
- Key forecasting assumptions
- Cost-of-production schedule
- Pro forma income statement
- Multi-year cash flow projections
- Return on investment statement
- Repayment plan

10. Risk management plan

- Risk factor analysis
- Quality control features
- Health, safety and relationship considerations
- Insurance protection

Managing Risk

The strategic plan, feasibility analysis, business plan and market surveys are risk management tools – intended to maximize your chances for success and minimize the probability and extent of losses. It's better to find out an idea is bad on paper before problems show up in your bank account.



Risk is the percentage chance that a person might lose something as a result of a decision or circumstance, and the extent and effect of that loss on the business and the owners, including family members. People vary in their willingness to take risks and their ability to sustain losses. It is important to foresee where losses might occur, plan to avoid or limit risks by minimizing risk factors and insure against the effect of an unforeseen event.

While risk factors differ between types of businesses, there are some similarities. Risk factors fall into three groups:

- systemic risks
- uncontrollable business-related risks
- controllable business-related risks

Systemic Risks

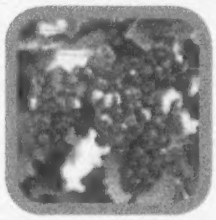
These are risks that exist because of the system you operate in. They could include the legislative framework, weather and other external factors that are out of your control. In many cases, there are ways to prevent or minimize the effect of these risk factors – for example, participating in organizations that work to secure the future of the industry.

The Industry Varietal Plan as amended January 2013, "Grape Varieties in Ontario Wine Regions – Understanding the Potential and the Risks" Grape Growers of Ontario is available to help distinguish viticultural characteristics and impact factors. It can also help identify varietal demand when determining grape cultivars to grow in a given area to reduce the risk of cold injury. Contact information for Grape Growers of Ontario is in *Appendix 2*.

Uncontrollable Business-Related Risks

There are business risk factors that entrepreneurs have no control over. Factors such as interest rates or strategic moves by competitors can have serious impacts on a winery. There are ways a new winery owner can reduce risks and the effect on the winery. For example, making a wide variety of high-quality wines at reasonable prices, making your winery retail store attractive and offering special events can make it more difficult for a competitor to lure customers away.

Controllable Business-Related Risks



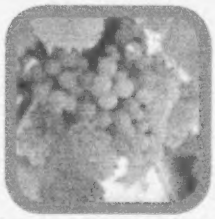
Other risk factors can be controlled by the entrepreneur. Many "accidents" that happen – lack of quality control in production and other production-related risks – are the result of inadequate management practices or unsafe working conditions. For example, a lawsuit could cripple a winery. Keeping debris cleaned up and floors clean and dry will reduce the risk that a worker or customer will be injured on your property. Liability insurance provides further protection.

Many regulations apply to the production and sale of wine in Ontario. Become familiar with the regulations before starting your new business and ensure all plan elements are achievable. If you build your business plan around VQA wines, be sure your wine is eligible for VQA status before you make it. And if you do not intend to seek VQA status, there are certain terms regulated by the VQA legislation that you cannot use.

Table 2-3 lists some risk factors that can threaten the viability of a winery, how risks can be prevented and how to minimize the effect. Many other factors have a financial impact on the winery. The business planner must identify those factors and have a plan to prevent them and devise a contingency plan to minimize their effects.

Table 2-2: Managing Risk Factors

Risk Factor	Reason	Prevention	Minimize Effect
Unable to sell enough wine to cover costs	Wine is priced too high	· Market unique origin or quality of wine · Establish product in appropriate price/value range	· Find higher-end market or reduce price
Unable to sell enough wine to cover costs	Quality is not sufficient	· Use outside resources to benchmark quality and make better quality wine · Hire a good winemaker or seek help from a consulting winemaker to address problems in winery · Participate in VQA quality improvement programs	· Reduce price · Rework marginal wines into new products to minimize losses
Unable to sell enough wine to cover costs	Customers not stopping at wine store	· More attractive store · More effective advertising · Other outlets (local restaurants, LCBO) · More accurate marketing plan and competitive analyses · Partner with other businesses · Participate in industry/ regional tourism programs	· Special events, festivals · Increase sales team · Direct delivery · Duty free
Unable to manage	Loss of key personnel	· Have workable succession plan · Share management responsibilities and information	· Life insurance · Trained management team · Business insurance · Bridge with consultants
Lawsuit	Customer injured on premises	· Safety training for all staff · Regular safety inspections · Keep visitors away from equipment/working areas	· Adequate liability insurance · Have a corporate business structure in place

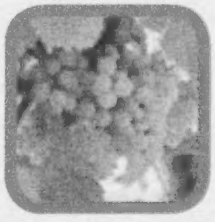


Risk Factor	Reason	Prevention	Minimize Effect
Lawsuit	Foreign material found in bottle of wine	• Quality control practices • Follow voluntary "Safe Winemaking Program" guidelines	• Product liability insurance • Have a corporate structure in place
Unable to meet financial commitments	High-volume buyer of product or service went bankrupt	• Ensure credit buyers are financially secure • Sell on cash-only basis • Check references with others in industry	• Bad debt insurance • Rely on several buyers
Unexpected financial obligation	Partner quits and demands half the value	• Comprehensive partnership agreement	• Buy-sell agreement
Lost time due to injury	Worker injured on job	• Safe working conditions and habits	• Complete Workers' Compensation coverage
Failure of raw product supply or issues with fruit quality	Weather related crop failure	• Have alternative supply sources • Manage inventory over several vintages	• Crop insurance • Grower contracts • Raise prices on limited supply
Poor success in gaining VQA approval	Lack of understanding of processes and requirements Ineligible wines Poor quality	• Consult rules before making wine to confirm eligibility	• Assess reasons for failure and seek assistance from VQAO or fellow winemakers
Sales drop dramatically	Competitor establishes nearby	• Position winery to attract target market	• Reposition product by labeling, advertising, added services and programs, improved quality, etc.

Insuring Your Business

Insurance is a risk management plan that minimizes the extent a negative risk factor will jeopardize the business. Vineyard and orchard owners understand the usual insurance coverage for fire, wind and hail. Liability insurance is less well understood, but is increasingly important as the public is invited onto premises on a regular basis.

In a successful lawsuit, personal assets such as a house or car can be seized. Under a corporate structure, the owner's liability is restricted to the assets of the corporation, unless the owners have personally guaranteed the liabilities of the company or the claimants can prove negligence on the part of the owners or management team.



Executives and directors of corporations must understand the consequences of personal guarantees, and the extent of their personal liability when making decisions and managing the company.

The amount of insurance to buy is an independent decision for the entrepreneur to make:

- What is the chance that one of these risk factors will occur?
- If it does occur, how will it affect the operation of the business?
- If it does occur, how will it affect the viability of the business?
- How will you and your business withstand this setback?

As a general rule, buy the amount and type of insurance to protect against any loss the business or individual cannot afford or is not willing to assume.

Many general insurance brokers and agents carry different types of policies that protect against unforeseen liabilities.

Life Insurance

Partners, company executives and directors should carry life insurance on each other as a complement to their partnership or shareholder agreement. This insurance allows the remaining partner to buy out the interest of the deceased and to improve the equity position of the company or to find a new partner.

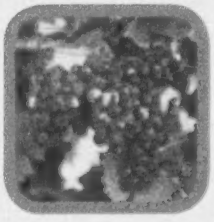
Disability Insurance

Disability insurance is as important as life insurance for key personnel. If an accident or illness leaves them unable to work, disability insurance provides an income while they are off the job, and provides for their replacement. Disability insurance is an added incentive to attract highly skilled personnel. The cost of disability insurance can be covered in full by the employer or divided between the employer and employee.

Life and disability insurance may be packaged together as partnership insurance and tailored to the specific needs of the partnership or company.

Personal and Corporate Liability

Liability insurance provides coverage against lawsuits by employees or the general public for personal injury incurred while on the business premises.



Product Liability Insurance

Product liability and completed operations liability insurance provide protection against claims by customers who incur damages or become ill from your product. Much of the regulation governing consumer protection is aimed at reducing the chance of someone consuming unsafe products; however, food-borne illness is a continuing concern.

International product liability insurance must be purchased for the country where you do business – Canadian product liability insurance does not provide coverage in the United States.

Property

Property insurance covers the building and its contents against fire, wind, lightning and burglary, and may also cover incidental events such as electrical failure. This insurance provides for the replacement of assets in case of loss or damage. Review property insurance policies carefully to understand what perils are covered, and to what extent.

Business Loan Life Insurance

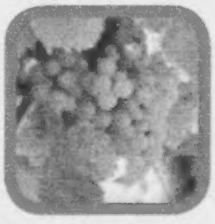
Business loan insurance protects partners, family and personal equity by paying off the balance of insured loans in the event of death. Mortgage and debt insurance are variations of this insurance.

Business Interruption

Business interruption insurance provides business income and alternative location funds in case of loss or damage.

Business Continuation

Business continuation insures the owner of a sole proprietorship for the value of the business. Another option is to have a key employee or family member insure the owner's life so they can purchase the business.



Key Person

This insurance covers the cost of filling the open position of a key person in the firm, and is often considered important for large corporations. Small companies that rely heavily on certain individuals should also consider this coverage.

Bad Debt

Bad debt insurance covers payments if customers fail to pay the business what they owe.

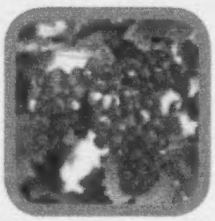
Company Car

Company-owned vehicles can be insured through commercial packages that provide liability insurance above the $200,000 minimum coverage required for licensing the vehicles. Further information on insurance types is on the OMAF and MRA website at *www.ontario.ca/agbusiness*

Workers' Compensation

All employees in Ontario are covered for accidents while on the job under the Workplace Safety and Insurance Board (WSIB). Employers are obligated to purchase this insurance for the protection of their employees, and workers are covered even if the employer does not pay the insurance premium or purchase the insurance. Business owner/operators may also purchase optional coverage for themselves and their immediate families. The WSIB has regional offices across Ontario, and its website is listed in *Appendix 1.*

3. Starting Your Winery Business



Good planning gets a winery up and running, but there are still many regulatory requirements to consider, mostly at the municipal level. Now it's time to consider whether to build or re-model the winery and store buildings, how to obtain the equipment, bottles and labels, making and packaging the wine, and preparing to sell it.

This section covers the logistics of organizing the business, putting the production system together and accounting for the capital costs of getting started.

Organizing the Winery

Types of Business Organization

There are four main types of business structures:

- sole proprietorships
- partnerships
- joint ventures
- corporations

Proprietorships

These are owned by a single proprietor who may perform all of the management functions, take the profits or losses and accept the liabilities for the business.

Partnerships

These are made up of two or more management partners who agree to share responsibilities, profits, losses and liabilities according to a legally binding agreement.

Joint Ventures

Joint venturing occurs when two or more businesses agree to work together, usually on an individual business project, to produce a benefit for each that is greater than either could attain by itself. Each participant in the joint venture is an individually run business. If a project is big enough, the joint venture could be spun off into a jointly owned new business, but that is an exception to normal practice.

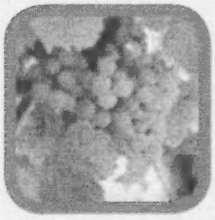
A joint venture is not a partnership, although participants in the venture may be partnerships, sole owners or corporations. A joint venture differs from a partnership in several ways.

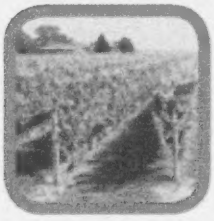
Joint Venture:

- exists for duration of a stated project
- each participant bears own inputs
- share gross income from the activity
- file tax as separate businesses
- has joint venture agreement
- participants not liable for each other's actions

Partnership:

- more permanent arrangement
- participants share production inputs
- share net income from the business
- file tax as a single business, however income is reported by the individual partners
- has partnership agreement
- partners liable for each other's actions





One main purpose for establishing a joint venture is to avoid being responsible for the liabilities incurred by the other venturer. The wording of the joint venture agreement must make it completely clear it is not a partnership. Use words like co-venturer or co-participant instead of partner in all documents.

A joint venture is an inexpensive way of starting a business because there is no transfer of assets. Gross returns from the joint activity are shared. The split is usually based on the relative production costs of the two parties to the venture, and does not have to be 50/50. Terms must be spelled out in the joint venture agreement, and can be changed if all parties agree.

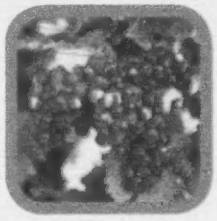
Corporations

Corporate structures are legal entities with shareholders as owners, who may also be the employees of the business. They are often formed as a tax-saving entity but have other advantages as well. When family income exceeds $70,000 incorporating may make sense. Family businesses are often incorporated so assets can be transferred between generations. Shareholders of a corporation are only liable for the debts of the corporation to the extent of the value of their shareholdings, unless they have signed personal guarantees for the borrowings of the company.

The corporate structure also has disadvantages. For example, a new business with high start up costs may want to apply losses against personal income, however in a corporate structure that is not permitted. Always seek professional advice before starting a corporation.

Note: Consult an accountant regarding income tax implications of your business structure.

Further information is on the OMAF and MRA website under *Business Planning* at *www.ontario.ca/agbusiness*



The Business Advisory Team

Deciding on the type of business organization you want is influenced by the income tax you will have to pay, and the needs of the people and businesses involved. A business may start as a single proprietorship or partnership and evolve to a corporation as the business grows or as family members enter the business. A corporation is a business entity in itself that lives on forever and is more difficult to "devolve" from a corporation to another form of organization. Always involve a lawyer, accountant and all family members and business partners in the decision about the type of organization to form.

These professionals will continue to be part of your business team, so select team members who want to see your business prosper and will give sound, practical business advice. The accountant must have a good tax and management team for support. The law firm must be business-oriented, and winery experience would be an asset.

The chair of the business team is usually the president or owner, but not always. If the owner or main shareholder does not have good leadership skills, defer the management of decision-making meetings to someone else on the team. This strategy can also encourage more input to the decision-making process by other team members.

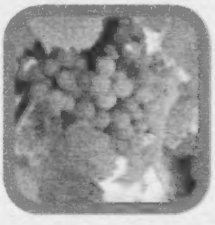
Registering Your New Business and Federal Licences

New businesses must be registered with municipal, provincial and federal governments before they do business. A winery must also obtain a federal excise licence(s) before producing, packaging or receiving wine.

Municipal Regulations

Be sure to comply with all municipal business licensing, zoning, building and fire regulations. With a few exceptions, these are administered by the municipality where the winery is located. Municipal regulations and permissions include:

- zoning
- building permits
- occupancy permit
- signage permit
- entranceways



All businesses must conform to the provisions of municipal planning or zoning bylaws. For wineries, this can be complicated. For municipal tax purposes, the exact square footage of the winery is assessed as industrial and the winery retail store is considered commercial, while the land they are on may be classed as agricultural. Confirm, in writing, with the municipality about activities allowed under the zoning bylaw.

Note: The Alcohol and Gaming Commission (AGCO) policy requires that the winery must be located on the same parcel of land as the production site. AGCO eligibility policy requires the winery retail store be located on the same continuous property as the manufacturing site. The minimum vineyard acreage is 2 ha (5 acres) of planted grapes or fruit.

Signage and entranceways (driveway connections) are the responsibility of the jurisdiction that owns the road. If the winery is located on a provincial highway, obtain permission for an entranceway or business sign from the Ontario Ministry of Transportation (MTO) office that governs the highway. If the winery is on a county road, permission and regulations are the responsibility of the county, even if it is within the town or township limits.

Building permits are required in all municipalities in Ontario. Owners must get municipal approval for the proposed new winery early in the planning stage, to determine the effect on the property tax assessment and the ability to carry on the new business.

Food premises are any location where food or drink are prepared and/or served. They include wineries and winery retail stores where tastings are held, and "tied houses" where food is prepared and served. In all cases, plans must be approved by the local health unit and the municipal building inspector. The Food Premises Regulation falls under the Ontario *Health Protection and Promotion Act*. The administration of the regulation is the responsibility of the local health unit.

Provincial Regulations

Any business operating in a name other than the exact name of the owner must register the business name with the Ministry of Consumer Services (MCS) at any ServiceOntario Centre. The business registration must be changed if there is a change in the original registration. This change could involve new partners or new activities, such as building a winery on the vineyard site or selling the product under a new name.

Registering a name does not offer name or brand protection. Brand protection requires incorporating the business, or legally registering a brand name through a lawyer.

When choosing a winery name, keep in mind that VQA Ontario regulates terms of origin for wine. These terms cannot be used in association with any wine (including a winery name) unless the wine is made from grapes grown in the named area. Consider the significant restriction this could pose on your business. If your proposed name contains any words in a currently regulated appellation name, contact VQA Ontario for guidance.

Other services available through the ServiceOntario website include:

- business name search
- Harmonized Sales Tax (HST) Vendor's Permit
- Employer Health Tax (EHT)
- Workplace Safety and Insurance Board (WSIB)

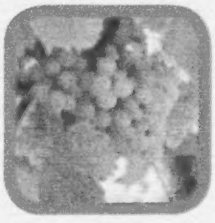
Environmental Regulations

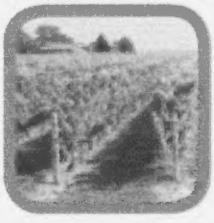
Permit to Take Water

The taking of more than 50,000 litres of water on any day by, for example, pumping to extract groundwater from a well or to withdraw surface water, to supply water for winery operations must be done in accordance with a Permit to Take Water issued by the Ontario Ministry of Environment (MOE). In most cases, the owner/operator of the winery will apply to the MOE to obtain the necessary water taking permit and, once obtained, may authorize employees to take water as allowed by the permit. For more information about Permits to Take Water, including application forms, please visit the MOE web site (*www.ene.gov.on.ca*) or contact your local regional MOE office.

Waste Disposal

Wineries must dispose of and provide holding facilities for waste water, including processing waste and cleaning water plus sanitary sewage. Several acts govern the treatment and disposal of wastewater including the *Ontario Water Resources Act* and *Nutrient Management Act*. Prospective winery owners should consult local Ministry of the Environment, Ontario Ministry of Agriculture and Food, health unit officials and municipal planning officials when designing waste disposal plans.





Ontario Health Protection and Promotion Act: Food Premises Regulation

Any "premises where food…is manufactured, processed, prepared stored, handled, displayed, distributed, transported, sold or offered for sale" is defined as a food premise. Wineries are not considered food premises unless they prepare and serve food or conduct tastings using non-disposable dishes or glassware.

For example, if a winery conducts a tasting using glassware, and serves cheese cut from a block (not pre-packaged) as an accompaniment, the winery or winery retail store must comply with Regulation 562 for surfaces and utensils, food handling, utensil and surface cleaning, garbage disposal and sanitary facilities.

If the tastings are conducted using disposable glasses and only non-hazardous foods such as crackers are served, the premise does not require regular inspections. However, winery and winery retail store owners may wish to consult with their local health unit regarding construction and activities of the facility. If there is a customer complaint, the health unit is obliged to investigate.

"Tied houses" are food premises and must conform in every way with the regulation.

Federal Regulations

The Canada Revenue Agency (CRA) may require a business to register for up to five programs:

- Excise duty
- Harmonized Sales Tax (HST)
- Payroll deductions
- Corporate income tax (if applicable)
- Import/export account (if applicable)

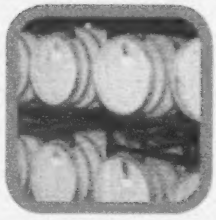
All wineries must apply to the CRA for a wine licence before producing, packaging or receiving wine. These issues are discussed in *Section 4* and *Section 8*.

Registration for a business number is available at the CRA website at *www.businessregistration.gc.ca*

Regulations and licensing requirements specific to the wine industry are discussed in *Section 4*.

Setting Up Your Winery Business

A winery is a distinct business, separate from the farming enterprise of growing grapes or fruit. Table 3-1 outlines the steps needed to organize the business aspect of a winery.



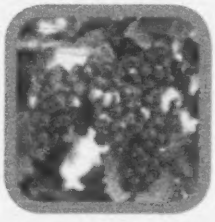
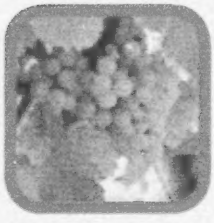


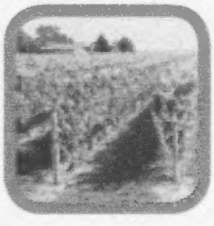
Table 3-1: Steps in Setting up Your Winery Business

Activity	Information Source
Decide on type of business organization	Accountant, lawyer
Select a business advisory team	Accountant, lawyer, crucial family members, trusted advisors, someone familiar with the industry
Apply for zoning change, building permit, occupancy permit, signage permit	Municipal office
Entranceway application	Municipal office, county or Ontario Ministry of Transportation
Food premises inspection	Local health unit
Business name search	ServiceOntario or searchers of records, if incorporated
Register your business name	ServiceOntario or law office
Ontario Retail Sales Tax Vendor's Permit	Ontario Retail Sales Tax office – Ministry of Finance
Employer Health Tax	ServiceOntario
Workplace Safety and Insurance Board	ServiceOntario
Permit to Take Water	Ontario Ministry of the Environment (MOE) and/or municipal office
Certificates of Approval for waste disposal	MOE and/or municipal office
CRA Business Number and HST account	Nearest Canada Revenue Agency (CRA) office (*http://cra-arc.gc.ca/cntct/prv/on-eng.html*)
Federal Excise Licence	Excise Duty, CRA (*www.cra-arc.gc.ca/E/pub/em/edm1-1-2/README.html*)
Payroll deductions form	CRA
Corporate Income Tax (if applicable)	CRA
Import/Export Account (if applicable)	CRA
Basic Business Permits	Licences and approvals specific to wineries are required from the Grape Growers of Ontario, Ontario Farm Products Marketing Commission, Alcohol and Gaming Commission and Liquor Control Board of Ontario as listed in Table 1-1 and detailed in *Section 4*

Planning the Wine Production System

To begin planning the wine production system, consider:





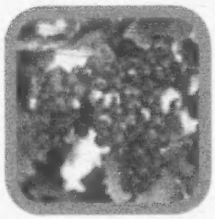
- How much wine can you expect to sell in the first selling year?
- How much will this increase in future years?
- What types of wine will you sell and in what quantities?
- Will you seek VQA status for some or all of your wines?
- How much fruit of each kind and from what region of origin do you need?
- How much fruit will be delivered to the winery from your own orchard or vineyard?
- How much juice of each kind will you have to buy?
- When will each kind be ready to process?
- What size batches do you want to make?
- What sizes and number of tanks will you need?
- How many oak barrels will you need, and what types?
- How many bottles will you need for each type of wine?
- What size of bottling equipment will you need five years from now?
- How will you receive fruit or juice?
- How will you ship wine?
- What facilities will you need for the first five years?
- What is the most effective location for these facilities?

Table 3-2 outlines 12 factors for owners to consider when planning the winery. These factors help determine the building needs and plan, and whether an existing building can be remodeled for the winery and/or store. This type of planning helps reduce labour, building, equipment and cleaning costs. A well-planned and orderly production system is easier to sanitize, more impressive to members of the public as they tour the winery and more profitable.

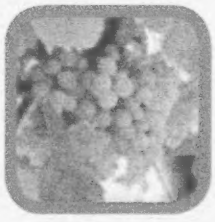
The term "system" is important to consider. Every activity from the vineyard to the tied house is part of the planning process. If these activities are planned as a complete unit, taking into account work flows and personnel, you will have a much smoother operation that saves time, money and stress.

Table 3-2: Factors in Planning the Winery

Factor	Considerations
Site selection	• "Tied-house" location and setting • Winery retail store location and setting • Winery location for tours and handling materials • Storage needs
Product desired	• Kinds and amounts
Equipment needed	• Type, size and location • Mix of wine types, styles and varieties and need for separation by origin or type • Number of products • Style of winemaking
Space requirements	• Floor area, room height, room for pipes, filling and emptying • Tank and barrel size and number • Receiving area, crush pad and floor levels • Working space, fork-lift space • Laboratory • Packaging area • Tour space • Licensed areas • Office needs • Store size and location relative to winery and storage • Bonded versus unbonded storage
Movement of materials	• Method, materials-handling equipment, piping
Work flow and labour efficiency	• Efficiency of materials movement • Efficiency of cleaning • Walkways and fork-lift maneuverability
Climate control	• Ability to juice regardless of weather • Ability to control temperature in processing and storage as needed
Storage, shipping and loading facilities	• Size, floor height, ceiling height, case handling • Floor strength and materials • Length of time for aging inventory in case goods
Location of store	• Position relative to winery and storage • Case-handling method • Suitable for giving tours • Tasting area needed • Compliance with AGCO and other legal requirements



Factor	Considerations
Future expansion potential	• Room within present facilities and room to expand • Continuation of efficiency of system
Pest control system	• Control of rodents, birds, cats, dogs, etc. • Control of moulds and yeasts • Structural materials and construction methods to minimize pests
Sanitation and quality control	• Ability to clean and sanitize equipment, floors, walls, etc. • Avoidance of cleaning products/methods not suitable for wine production • Equipment and structural materials are easy to clean • Appropriate sanitizing equipment • Proper chemical storage • Sanitary disposal of waste products, processing water and sewage • Compliance with Canadian Food Inspection Agency requirements



Designing the Production System

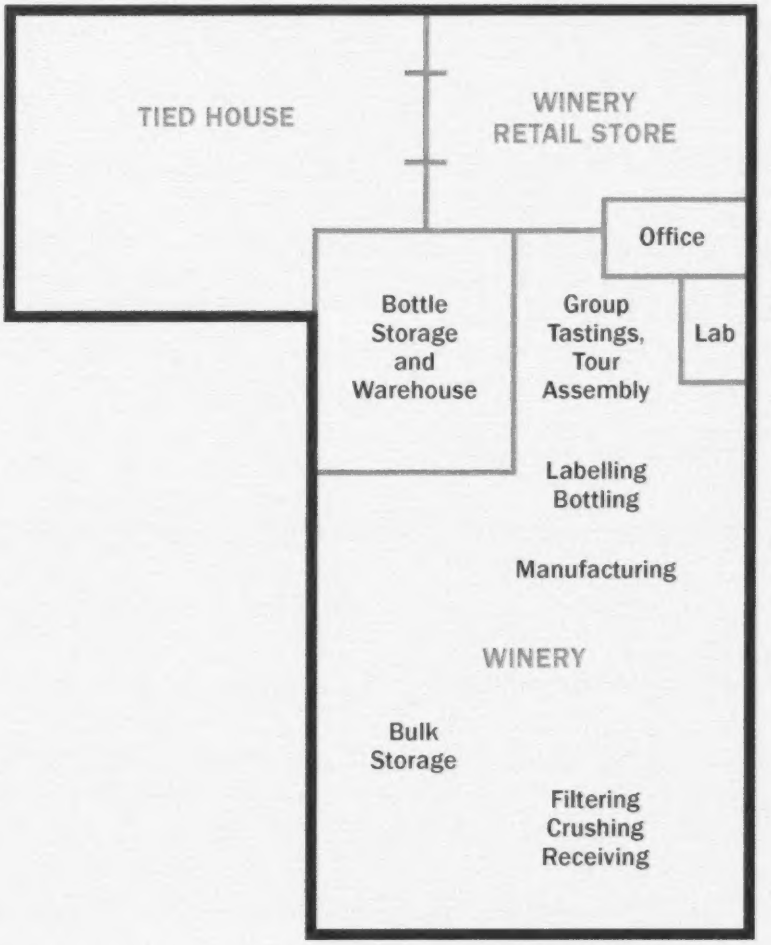
Once all the design considerations are identified for your winery, look at existing wineries and talk to their owners about design. Find out what works, or what could be improved. Visit several wineries similar to the one you are planning.

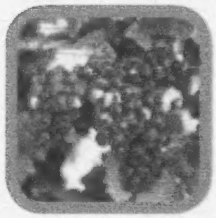
Design engineers can help you with the design, materials and construction aspects of the winery. Have a clear picture of the size of building and equipment needed for the winery being planned. Two important considerations for the design are efficient handling of materials and building in room for expansion.

Efficiencies can be gained by locating work areas, equipment, storage and sales areas in a simple and logical sequence. Efficiency results in minimal time in moving materials from one place to another, and saves time and labour spent in wasted steps and back-tracking. Ceiling heights must accommodate storage tanks, but be low enough to minimize heat losses. Ensure adequate floor space to allow people and mobile equipment such as fork-lifts to operate safely between equipment and storage tanks.

Figure 3-1 illustrates a winery designed for efficiency of production and materials handling, and to accommodate future expansion. It does not represent any particular winery size and is not drawn to scale.

Figure 3-1: Design of Winery, Retail Store and Tied House





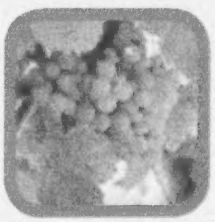
Notice how product moves in only one direction. No processing area, such as water supply or materials disposal, should be located at an end of the building. This feature allows any section of the building to be expanded as needed without interfering with other parts of the system.

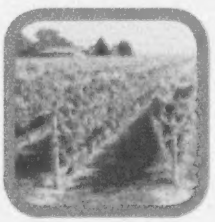
Ensure the clean water source and disposal areas are separated by adequate distance to prevent possible contamination of fresh water. If bulk drinking water is used in the tied house, storage for it can be incorporated into the refrigerated portion of the bottle storage area.

When the winery applies for a Liquor Sales Licence and Catering Endorsement (see *Section 4*), a complete floor plan must be submitted in duplicate on letter sized (8½" × 11") paper with the proposed licensed areas outlined in red. These licensed areas may be indoors and/or outdoors.

Managing Capital Costs

The capital investment involved in starting a winery is always a major expenditure. This cost can be reduced significantly by remodeling existing buildings, finding used equipment and limiting the number and kind of aging barrels. Also consider the impact that interest on the initial investment will have on the profitability of the new winery.





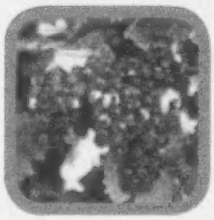
Capital costs affect the profitability of the winery in several ways:

- Interest payments must be made monthly, even before wine can be sold and cash flow established.
- Capital Cost Allowance (depreciation) takes place over a period of years. This means it takes several years to recover the original cost through the tax system.
- Investors/partners may grow impatient waiting for significant returns on their investments.

New winery owners face a major challenge in keeping capital costs under control while building an attractive winery and improving sales revenue. Here are some helpful suggestions:

- Locate the winery and winery retail store in as high-traffic an area as possible.
- Use existing facilities where possible, even if the efficiency of production is less than ideal.
- Produce a high-quality wine in varieties that are in demand.
- Focus on a limited number of varieties and styles of wines.
- Keep the winery and winery retail store design as simple and cost-effective, yet as attractive to the public, as possible.
- Search for used equipment.
- Share resources/custom work where possible.
- Avoid "frills" – you may be able to capitalize on an "old-fashioned" image.
- Take advantage of tax incentives, such as Accelerated Capital Cost Allowance programs.
- Take time to get your business plan right to improve your winery's ability to attract sufficient investment capital.

4. Regulations, Licences and Authorizations



Wineries in all parts of the world operate under close scrutiny and regulation by governments. Regulations, licences and authorizations are for the protection of the industry and the public at large.

This aspect of the winery business can be a huge burden to the new owner. These safeguards prevent unscrupulous owners from entering the industry and allow the wine industry to enjoy a reputation for quality. It is in the best interests of every winery owner to comply with the letter and the intent of regulations.

Acts and Regulations

Five provincial and three federal acts specifically govern the liquor industry in Ontario – other acts and regulations apply to businesses or specifically to food businesses. Each act authorizes certain bodies or organizations to create and administer regulations controlling the policies and procedures of governing bodies and authorizing certain practices.

In Ontario, these acts are:

- *Farm Products Marketing Act, 1990*
- *Alcohol and Gaming Regulation and Public Protection Act, 1996*
- *Alcohol and Gaming Regulation and Public Protection Act, 1996*, Part II, Beer and Wine Tax
- *Liquor Licence Act, 1990*
- *Liquor Control Act, 1990*
- *Wine Content and Labeling Act, 2000*
- *Vintners Quality Alliance Act, 1999*
- *Health Protection and Promotion Act*, Food Premises Regulation

In Canada, these acts are:

- *Excise Act, 2001*
- *Excise Tax Act*
- *Food and Drug Act* and Division 2 of the Food and Drug Regulations
- *Importation of Intoxicating Liquors Act*

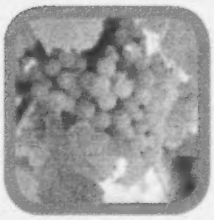
These acts and regulations are specific to the beverage alcohol and wine industry, except for the *Farm Products Marketing Act, Health Protection and Promotion Act, Alcohol and Gaming Regulation and Public Protection Act*, and the *Excise Tax Act*. These acts do not replace other acts, regulations and policies that apply to all businesses in Ontario (discussed in *Section 2*), but are in addition.

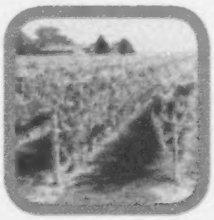
Copies of the listed Ontario acts and regulations may be ordered:

- **online**
  www.ontario.ca/publications
- **by fax**

  613-545-4223 on company letterhead
- **by telephone**

  1-800-668-9938 toll-free across Canada
  1-800-268-7095 TTY toll-free across Ontario





Provincial acts and regulations may be downloaded and printed free of charge from the e-laws website *www.e-laws.gov.on.ca*. Hard copies ordered through ServiceOntario are individually priced, and payment may be made by VISA or Mastercard.

Copies of the listed federal acts and regulations may be accessed through the Department of Justice website at *http://laws-lois.justice.gc.ca/eng/acts/*

The licensing and other regulatory requirements of the *Excise Act, 2001* are covered in this section. Excise duties and GST/HST are covered in *Section 8*.

A number of federal, provincial and municipal regulations and permits must also be obtained by any business operating in Canada or Ontario. These are covered in *Section 2* and *Section 8*.

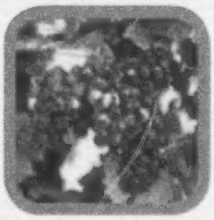
Licences

A licence is issued under the authority of legislation and its regulations, allowing the licence-holder to carry on certain practices described by the licence. Failure to perform these activities in accordance with the legislation and regulations, as described under the terms of the licence, can result in the licence being cancelled and the right to practice withdrawn.

There are three provincial licensing options open to wineries in Ontario, described in Table 4-1. All wineries must also obtain their federal wine licence.

Table 4-1: Provincial and Federal Licensing Options

Option	Licences Required	Licensing Body
Winery alone	· Wine Licence · Grower and Processor Number, and Licence to Process Grapes, or Licence to Process Tender Fruit · Manufacturer's Licence · Manufacturer's Limited Liquor Sales Licence (by the glass), if required	CRA GGO OFPMC OFPMC AGCO AGCO
Winery plus winery retail store	· Wine Licence · Grower and Processor Number, and Licence to Process Grapes, or Licence to Process Tender Fruit · Manufacturer's Licence · Manufacturer's Limited Liquor Sales Licence (by the glass), if required plus Winery Retail Store Authorization	CRA GGO OFPMC OFPMC AGCO AGCO AGCO
Winery plus winery store plus tied house	· Wine Licence · Grower and Processor Number, and Licence to Process Grapes, or Licence to Process Tender Fruit · Manufacturer's Licence · Manufacturer's Limited Liquor Sales Licence (by the glass), if required plus Winery Retail Store Authorization plus Liquor Sales Licence and Catering Endorsement	CRA GGO OFPMC OFPMC AGCO AGCO AGCO AGCO



GGO – Grape Growers of Ontario
OFPMC – Ontario Farm Products Marketing Commission
AGCO – Alcohol and Gaming Commission of Ontario
CRA – Canada Revenue Agency

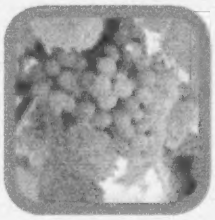
Policies and Authorizations

Policies are created by the governing authority and describe how regulations are administered within the regulatory framework. Authorizations may be issued within the policy guidelines to allow participants to carry out certain practices.

Regulations, licences and authorizations all carry the same legal authority. Failure of the winery to comply with the conditions can result in fines and/or loss of the licence to sell wine in Ontario.

Regulatory Organizations

Ontario Farm Products Marketing Commission (OFPMC)



The OFPMC is an agency of the Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs (OMAF and MRA). The commission is responsible for administering the *Farm Products Marketing Act* and the *Milk Act*, supervising marketing boards and representative associations established under the legislation, and the licensing to process grapes, peaches, pears, plums, cherries (sweet and sour) and nectarines (see Table 4-2), as well as supervising of other farm commodities under the authority of marketing boards.

Processor Number

A Processor Number from Grape Growers of Ontario (GGO) and Grape Processor Licence from the OFPMC are required by grape wineries to process grapes in any way. A copy of this licence must be provided to AGCO before it will issue a Manufacturer's Licence.

Tender Fruit Processor's Licence

Wineries planning to make wine from peaches, pears, plums or cherries (sweet and sour) produced in Ontario must obtain a Tender Fruit Processor's Licence from the OFPMC. A copy of this licence must be provided to AGCO before it will issue a Manufacturer's Licence.

Note: A processor's licence is not required if purchased juice or concentrate is used to make a wine or wine product, or if fruits other than those designated are used. A processor's licence is required for the manufacture of the juice or concentrate.

Fruits requiring a Licence to Process include:

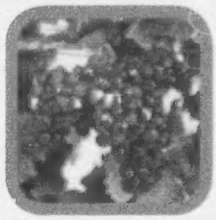
- grapes
- peaches
- pears
- plums
- cherries (sweet and sour)

To qualify for a Licence to Process Tender Fruit or for a Licence to Process Grapes, an applicant must satisfy the criteria listed on the application form. To meet these criteria, processors must:

- have the equipment for processing
- have experience in processing
- be in compliance with all regulations, orders, marketing agreements and awards under the *Farm Products Marketing Act*

Processors of grapes or tender fruit must have the capability to process fruit before the licence is issued, but this capability can be under the ownership of the applicant or via a co-packer. Existing licences are in effect as long as the applicants they are issued to continue to process and comply with the criteria. New licences are issued for a five-year renewable term. Complete details are listed on the Ontario Farm Products Marketing Commission website (see *Appendix 1*).

The *Liquor Control Act* states that "a manufacturer may sell or deliver (in Ontario) only Ontario wine produced from fruit grown in Ontario."



Beekeeper Certificate of Registration

Any winery wishing to make mead (honey wine) must possess a valid Beekeeper Certificate of Registration, available from Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs (see *Appendix 1*).

Vintners Quality Alliance Ontario (VQAO)

VQAO was established under the authority of the *Vintners Quality Alliance Act* to create and administer an appellation of origin system for Ontario grape wines. This system identifies Ontario wines according to the specific grape-growing areas where they are produced and the methods used.

Participation in the VQA system is voluntary, but wines not certified by VQA Ontario may not use specific terminology regulated under the appellation system on labels or in any other material associated with the wine. Regulated terms include "Ontario", regional names and certain wine names such as "icewine". A winery must join VQA Ontario and have individual wines approved to use the regulated terminology. A manufacturer's licence issued by AGCO is a prerequisite for VQA membership. VQA is discussed in *Section 5*.

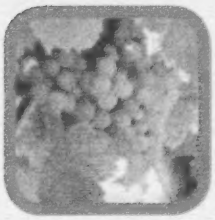
Alcohol and Gaming Commission of Ontario (AGCO)

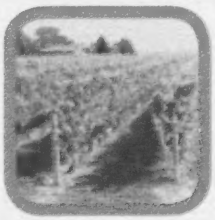
The AGCO is an agency of the Ontario Ministry of the Attorney General (MAG), operating under the authority of the *Alcohol and Gaming Regulation and Public Protection Act*. It licenses, authorizes and regulates all activities in Ontario related to lotteries, gambling, and the sale and service of beverage alcohol.

Originally established under the authority of the *Liquor Licence Act* as the Liquor Licence Board of Ontario (LLBO), the AGCO was established on February 23, 1998 and assumed responsibility for the administration of legislation previously administered by the Liquor Licence Board of Ontario and the Gaming Control Commission. The AGCO main functions in regulating the wine industry in Ontario consist of:

- licensing manufacturers to sell Ontario wine to the Liquor Control Board of Ontario (LCBO) for sale and distribution in its system or by other approved means
- administering the *Wine Content and Labeling Act* and Regulations

- issuing Liquor Sales Licences
- administering advertising guidelines
- authorizing and/or licensing liquor delivery services
- authorizing on-site winery retail stores
- licensing manufacturer's representatives (licensed representatives or agents)
- issuing permits for special occasions





Manufacturer's Licence

Every winery operating in Ontario must have a valid Manufacturer's Licence to sell its products to the LCBO or through its on-site retail store. **This is not a licence to manufacture wine.** A manufacturer's licence allows a manufacturer of wine produced in Ontario to sell it to the Liquor Control Board of Ontario (LCBO) or to the public through its on-site retail store if the requirements for a retail store are met. A Manufacturer's Licence is also required to obtain authorization to operate a winery retail store, to obtain a tied house liquor sales licence, a Manufacturer's Limited Liquor Sales Licence (by the glass) or to apply for any of the licences or authorizations of the AGCO and the LCBO.

Applicants should obtain the Application Guide for a New or Transferred Manufacturer's Licence from AGCO, available at *www.agco.on.ca*. All AGCO application forms and information packages are on its website.

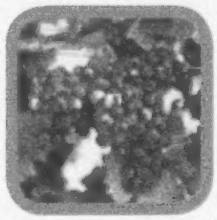
Requirements

Review the AGCO application to see all requirements:

- completed application form including personal history report
- completed corporate structure form
- completed business plan, including:
  - applicant's business background and experience
  - full description of products to be manufactured on-site in the new facility
  - financial plan showing projected revenue and expenditures for a three-year period
  - detailed floor plans showing complete layout of the manufacturing facility, including equipment and proposed location of on-site winery retail store
  - business name registrations, issuance fee, copy of federal excise licence, copy of licence to process, written proof of LCBO product testing

Eligibility Criteria

- All applicants must be at least 19 years of age.
- Applicants or directors of applying corporations will generally not have any direct or indirect financial ownership in an establishment holding a regular "sale" licence (licensed restaurants, hotels, bars, etc.).
- Applicants must demonstrate financial responsibility in the conduct of the intended business.
- Applicants must demonstrate reasonable grounds that they will conduct business in accordance with the law and with integrity and honesty. A police record search will be conducted on all applicants and directors.



Fee

An issuance fee at the date of publication (2013) of $1,260, payable to AGCO, is charged for the Manufacturer's Licence. It is renewable every two years. Table 4-3 provides a summary of AGCO licensing and authorization fees. The relationship of all fees to pricing is outlined in *Section 7*.

Application Review

After a completed application and business plan, corporate structure form, personal history report and business name registration are received and reviewed, AGCO staff may arrange for the applicant to appear for an informal discussion about plans for the new winery. The staff will then prepare a recommendation to the Registrar of Alcohol and Gaming.

The Registrar will:

- confirm that the applicant is eligible for a licence, and may proceed to the last phase of the process
- ask for additional details or information
- refuse to grant the licence if all criteria are not met

Successful applicants must meet the following conditions before the licence will be granted:

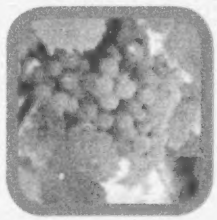
- provide a Licence to Process Grapes and/or Tender Fruit Processor's Licence
- provide proof of LCBO product testing for the sale of the product
- submit payment of AGCO fees

After these conditions are met, and the AGCO is satisfied that the premises conform to the *Liquor Licence Act* and Regulation, the licence will be issued.

After the Manufacturer's Licence Has Been Issued

The holder of a manufacturer's licence is subject to:

- renewal of licence and payment of licence fees every two years (if there is no change in ownership)
- periodic inspection by AGCO investigation/inspection staff
- audit, including on-site inspection and implementation of production controls and compliance with the *Wine Content and Labeling Act*
- adherence to AGCO Advertising Guidelines, Sampling Guidelines, the *Liquor Licence Act* and Regulation
- ongoing operation consistent with the conditions set out in the original application and approval of licensing



Transferring a Manufacturer's Licence

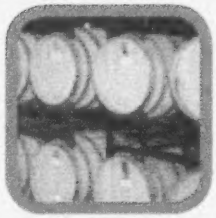
Ownership of an existing licence can be transferred under certain situations:

- A new owner intends to purchase an existing winery with an active licence, and the licence holder agrees to transfer the Manufacturer's Licence to the new owner.
- An individual, partnership or corporation purchases all the shares of a corporation that holds an active Manufacturer's Licence, and the corporation agrees to the transfer.
- A licence holder takes on a new partner (transfer to the new partnership).
- A corporation holds a current Manufacturer's Licence and a change in corporate structure results in a person or corporation gaining 10% or more of the voting shares.
- The will of a deceased licensee is being probated and the winery will be operated by the beneficiary. The executor must notify the Commission in order to have the Manufacturer's Licence amended into their name. The beneficiary then applies for a transfer of the licence to assume responsibility for the winery.

Note: If a corporation holds the Manufacturer's Licence, the AGCO must be notified whenever there is a change in officers or directors. Although a transfer is not required, the corporation must submit a list of the new officers and directors.

Winery Retail Store Authorization

Winery Retail Store (WRS) Authorizations are issued by the Alcohol and Gaming Commission (AGCO). A fee at the date of publication of $265 is payable at the same time as the Manufacturer's Licence, and then every two years (in addition to the monthly fees listed in Table 4-2). Table 4-2 summarizes AGCO licensing and authorization fees.



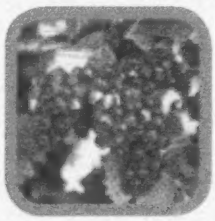


Table 4-2: AGCO Licensing and Authorization Fees

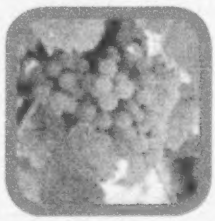
Fee	Amount	Conditions
Manufacturer's Licence (ML)	$1,260	Payable every two years at startup and upon renewal
Transfer of ML	$1,000	
Winery Retail Store Authorization	$265	Payable every two years at startup and upon renewal
Liquor Sales Licence (LSL) – Tied House (new application)	$1,055 plus advertising fee	Payable when the application is submitted, licence is issued for two years
Renewal of LSL	$450	Renewal every three years
Transfer of LSL	$1,000	
Manufacturer's Limited Liquor Sales (by the glass)	$450	Renewal every two years
Licence to Represent Manufacturer	$30	Payable when application is submitted and upon renewal

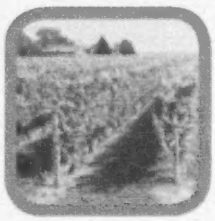
A complete and up-to-date list of fees is on the AGCO website at *www.agco.on.ca*

Most new wineries choose to market their wines through their own winery retail store. Under the provisions of the North American Free Trade Agreement, the AGCO can only issue new authorizations for on-site winery retail stores. The AGCO will not issue authorizations to wineries to establish off-site winery retail stores. New off-site winery retail stores and "mini-stores" located within existing retail stores or complexes are relocations of previously existing off-site winery retail stores.

Ontario's wine industry has established itself as a world-class wine growing and winemaking region. To maintain this close connection between wine growing and winemaking, criteria have been established under which the AGCO may authorize an Ontario winery to operate a winery retail store. These criteria are in the Winery Retail Store Information Package on the AGCO website at *www.agco.on.ca*

In general, licensed wineries can apply for a WRS Authorization if they meet one of the following conditions:





- The *grape winery* is located in a Viticultural Area (VA) and is on at least 2.2 ha (5 acres) of planted grapes.
- The *grape winery* is located outside the VA, has 2.2 ha (5 acres) of planted wine grapes and manufactures at least 50% of its total production from grapes grown within the county, region or district in which it is located.
- The *fruit winery* is located on property with at least 2.2 ha (5 acres) of planted fruit and manufactures at least 80% of its total production from fruit other than grapes.
- The *honey winery* owns and operates at least 100 colonies of honey bees and possesses a valid Beekeeper Certificate of Registration issued by the Provincial Apiarist (an employee of the Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs – see *Appendix 1*) under the *Bees Act* of Ontario.
- The *rice winery* is located on the same parcel of land as the production site, where full rice wine making process takes place.

In addition:

- Any winery that produces apple wine must make each of its brands from at least 70% Ontario apples or the concentrated juice of.
- Any winery that makes wine from fruit other than grapes or apples must make each of its brands from 100% Ontario fruit or the concentrated juice of.

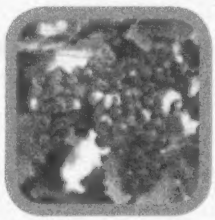
The AGCO requires all wine sold in a winery retail store be "made" by the winery that holds the WRS Authorization (the manufacturer). This means the winery must carry out the full primary fermentation process on at least 25% of the total volume of wine sold in a year and on at least 25% of the volume of wine sold at the on-site winery retail store in a year.

The manufacturer must also carry out at least one of the following "significant wine making steps" with respect to the full content of each bottle of wine sold in its winery retail store:

- primary fermentation
- blending
- barrel-aging (at least three months)
- bulk-aging (at least three months)
- secondary fermentation (for sparkling wine)
- artificial carbonation (for sparkling wine)
- flavouring (for fortified wines)

Wine sold must also comply with specific requirements regarding Ontario content. Winery owners are required to maintain sufficient records to indicate they have complied with this policy. The full text of this policy is found in the WRS Information Package on the AGCO website at *www.agco.on.ca*

The criteria was developed in close consultation with the Ministry of Consumer Services, the LCBO, the Wine Council of Ontario, the Grape Growers of Ontario and a wide representation of established and potential grape wineries. The criteria align with Ontario's international trade obligations, promote value-added agriculture, rural economic development and tourism, and help to preserve agricultural land in grape- and fruit-growing areas.



Relocating the Winery Retail Store

Application must be made to the AGCO to authorize relocation of a manufacturer's winery retail store. The winery must then surrender its existing WRS Authorization and obtain a new authorization, showing the new location from the AGCO.

The type of winery retail store may limit where the store can be relocated. An on-site store may not be relocated to an off-site location, and the retail store must continue to be located at a production site of the holder of the WRS Authorization.

Note: No more than one on-site WRS Authorization is issued to any manufacturer.

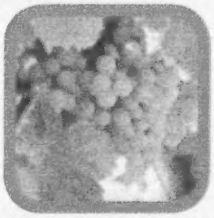
Liquor Sales Licence and Catering Endorsement – Tied House

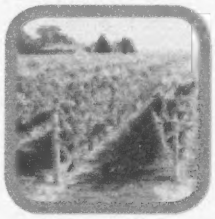
The Liquor Sales Licence permits food establishments to serve beverage alcohol where light meals are available (bars, restaurants, hotels, etc.) that offer a variety of beverages on the menu.

A **tied house** is a licensed restaurant or food establishment situated on the manufacturing site, owned and operated by the manufacturer, and therefore "tied" to the winery. The Liquor Sales Licence – Tied House allows the tied house to serve wine made by its winery for consumption on the premises in conjunction with food. Wineries holding an AGCO Liquor Sales Licence – Tied House can also apply for a Tied House Catering Endorsement, allowing them to cater third-party functions in facilities and other on-site locations not covered by the licence.

Licensed capacity is limited to 500 persons indoors and 1,000 persons outdoors. Applications for a Liquor Sales Licence must be advertised in a local newspaper (AGCO places the advertisement and collects the advertising fee from the applicant). The application fee for a new Liquor Sales Licence at the date of publication (2013) is $1,055 plus the advertising fee and is valid for two years, renewable for a three-year term for $450.

The tied house must meet the same standards for service, quality and sanitation prescribed for any restaurant, and is permitted as a food premise under the Ontario *Health Protection and Promotion Act*, Food Premises Regulation. Food premises permits are available from local health units. The tied house must also comply with all applicable zoning bylaws, Building Code and the *Fire Protection and Prevention Act*.





Manufacturer Limited Liquor Sales (By the Glass) Licence

The Manufacturer Limited Liquor Sales Licence allows Ontario wineries to sell and serve their product for the purpose of promotion or tourism. Servings may not exceed 142 mL (5 oz.) for Ontario wine. The licence only allows wineries to provide the product "by the glass" on their manufacturing site. Wine can only be sold and served between 11 a.m. and 9 p.m. on any day, and must be served by a person who has completed server training (for example, Smart Serve®). More information on the Manufacturer Limited Liquor Sales Licence is on the AGCO website (see *Appendix 1*).

Special Occasion Permit (SOP)

An SOP is needed any time alcohol is offered for sale or served anywhere other than in a licensed establishment or a private place. There are three types of SOPs for private, public and industry promotional events. There are two forms of SOPs:

- sale – where beverage alcohol is sold at an event
- no sale – where beverage alcohol is served without charge, directly or indirectly

More information about Special Occasion Permits is on the AGCO website (see *Appendix 1*).

Training for Servers

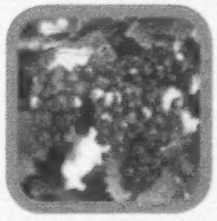
The Smart Serve training program for servers of alcoholic beverages has been developed by Smart Serve Ontario, a division of the Hospitality Industry Training Organization of Ontario (HITOO) and recognized by AGCO. Smart Serve is mandatory for licence holders, all managers, anyone involved in the sale or service of liquor and security staff employed by the licence holder.

Smart Serve trains servers and managers on how to prevent alcohol-related problems and how to intervene if problems do occur. The training covers responsible serving techniques, legal issues and house policies. Contact information for Smart Serve is in *Appendix 2*.

Licence to Represent a Manufacturer

Some wineries hire a licensed sales representative (agent) on commission to sell their product to the LCBO and to licensed establishments. The holder of the Manufacturer's Licence is responsible for ensuring these representatives are licenced with the AGCO, and representatives are responsible for obtaining and maintaining their own licence.

Note: Salaried employees of a domestic (Ontario) winery who have responsibility for selling are not required to be licensed as representatives. Their activities are covered by the Manufacturer's Licence.



The process for obtaining a Licensed Representative Licence is:

- obtain Licence to Represent a Manufacturer information and application forms from AGCO
- have forms completed and signed by the prospective licensed representative (agent)
- return completed forms to the AGCO along with a fee of $30 (see Table 4-3) and a letter from the manufacturer authorizing the appointment of the applicant as a representative of the manufacturer

Additional licensed representatives (agents) may be appointed at any time, but each must be licensed. The Licence to Represent a Manufacturer is not transferable or refundable, but a licensed representative can represent more than one winery without purchasing additional licences.

Manufacturer's Responsibility for Representatives

It is the responsibility of the manufacturer to ensure:

- the licensed representatives (agents) are licensed in accordance with the *Liquor Licence Act*
- the manufacturer provides liquor to its representatives or fills individual orders only after receiving an order from the representative on the prescribed purchase order form
- the manufacturer fills purchase orders using only stock from the manufacturer's winery retail store or LCBO stores

Regulations Governing Licensed Representatives

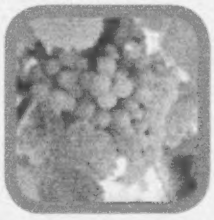
Representatives may open premises just to carrying out their business as representatives. The AGCO must be informed within five days that a representative has opened a business or that the business has relocated.

Licensed representatives may not make a direct sale of wine or wine products to the public. They must use purchase order forms to submit orders to the manufacturer's winery retail store or LCBO store. Representatives cannot take delivery of any order unless it has been placed and accepted by the retail outlet and has a purchase order attached. The purchase order must contain the following information:

- the licensed representative's name and business address
- the name and address of the manufacturer being represented

- the purchaser's name and address and licence number, if the purchaser is the holder of a Liquor Sales Licence (or permit number, if the purchaser is the holder of a Special Occasion Permit)
- the type and quantity of wine ordered
- the date and time of the order
- the name and address of the person to whom the delivery of product is to be made
- the terms of payment

A copy of the LCBO purchase order must be attached, at all times, to orders that are delivered to the purchaser or kept at the representative's place of business. Representatives may only keep wine products at their place of business that are to be delivered or picked up, used for carrying out market research or given away unopened as samples. Representatives may keep no more than 180 litres of product at their place of business.



Liquor Delivery Service Authorization

Authorization for an On-Site Winery Retail Store Offering Product Delivery

Winery retail stores may apply to contract a third-party carrier to deliver their products to "private places" as defined in the *Liquor Licence Act* regulations. These are indoor locations where the public is not normally invited or permitted access. The winery retail store applies to Alcohol and Gaming Commission of Ontario (AGCO) for an Authorization for an On-Site Winery Retail Store Offering Product Delivery. The delivered product must be sold at the same price as the same wine in the winery retail store. The winery retail store must charge a delivery fee that is not less than the reasonable cost of the delivery service.

Winery Direct Delivery Authorization

Wineries (not winery retail stores) may apply to the LCBO for authorization to deliver wine made in the same winery directly to licensees or licensed establishments such as restaurants and hotels. These persons or establishments must have a valid licence to sell liquor issued under the *Liquor Licence Act*. These sales are LCBO sales. The manufacturer is required to report sales and remit applicable fees to the LCBO monthly.

Details are available from the LCBO Policy and Government Relations Branch at 416-864-6817.

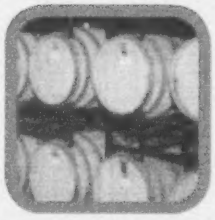
Advertising Guidelines

The *Liquor Licence Act* (Regulation 720 Section 5) permits a manufacturer of wine to advertise within specific criteria and in accordance with the AGCO's Advertising Guidelines.

A manufacturer does not have to obtain AGCO approval of its advertising program or content. The manufacturer is responsible to ensure advertising that carries the winery's business or brand name, or is endorsed by it, falls within the parameters in the regulations and in AGCO's Advertising Guidelines. The guidelines are posted on AGCO's website.

For More Information

There are several licences, permits and regulations involving the production, management and serving of beverage alcohol. Those administered by the AGCO are illustrated in Figures 4-1 and 4-2, and Table 4-2 provides a summary of AGCO licensing and authorization fees. Complete information and application forms can be found on the AGCO website at *www.agco.on.ca*. Winery owners must be aware that regulations and policies change from time to time, and prospective licensees should check with organizations for the most recent information.



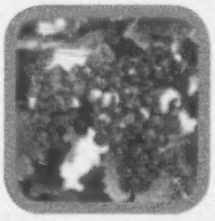


Figure 4-1: AGCO Licensing Procedures: Winery

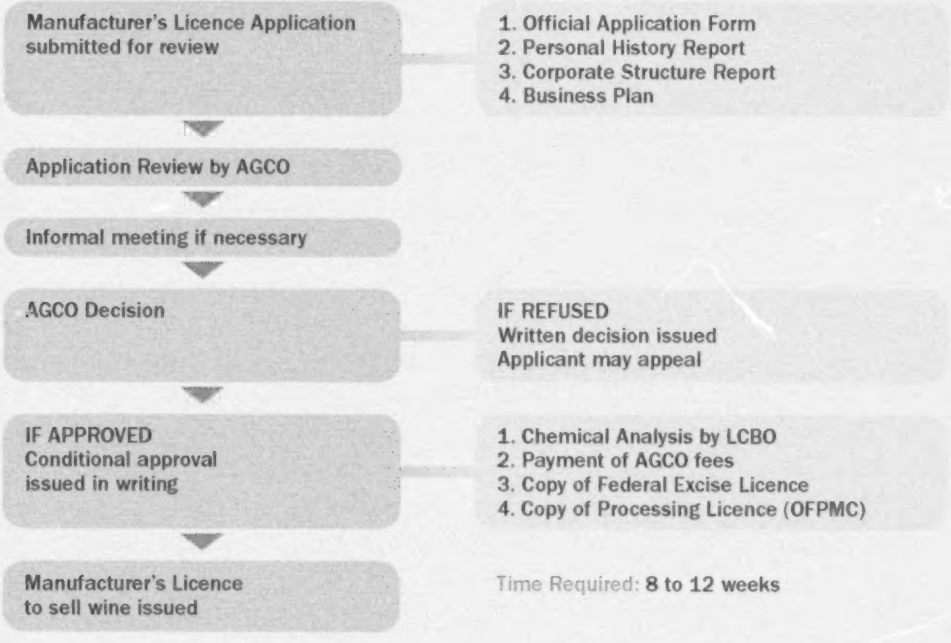
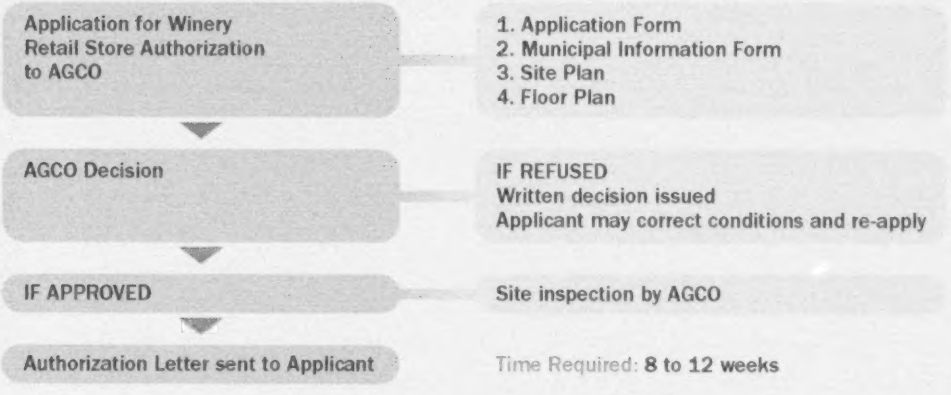
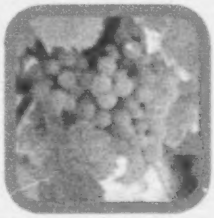

Manufacturer's Licence Application submitted for review
1. Official Application Form
2. Personal History Report
3. Corporate Structure Report
4. Business Plan
Application Review by AGCO
Informal meeting if necessary
AGCO Decision
IF REFUSED
Written decision issued
Applicant may appeal
IF APPROVED
Conditional approval issued in writing
1. Chemical Analysis by LCBO
2. Payment of AGCO fees
3. Copy of Federal Excise Licence
4. Copy of Processing Licence (OFPMC)
Manufacturer's Licence to sell wine issued
Time Required: 8 to 12 weeks

Figure 4-2: AGCO Licensing Procedures: Winery Retail Store



Liquor Control Board of Ontario (LCBO)

The LCBO exists under the authority of the *Liquor Control Act* to control the distribution of beverage alcohol in Ontario. Most of the regulatory functions in the *Liquor Control Act* are now performed by the AGCO, but the LCBO still authorizes wineries to deliver directly to licensees and authorizes warehousing of wine at a location other than the manufacturing site. Wineries report production and sales to the LCBO monthly, and the LCBO Store and Winery Audit Department conducts audits of wineries. The LCBO Quality Assurance Lab tests all products the LCBO sells and offers laboratory testing and label review services to wineries. LCBO also purchases from Ontario wineries – in 2011-12 more than $360 million worth of Ontario wine was sold through the LCBO.



While the LCBO purchases from wineries of all sizes and has a variety of programs specifically for small Ontario wineries, the wine market is very competitive. Ontarians are sophisticated consumers and to compete successfully, wines must deliver excellent quality at competitive prices backed by compelling labeling and promotion. There is no guarantee the LCBO will purchase wine or that the wine will be successful simply because it is produced in Ontario.

For more information on doing business with the LCBO visit
www.doingbusinesswithlcbo.com

Quality Control

Federal law establishes limits on chemical content for any wine made in Canada. The LCBO has a laboratory service to monitor wines, and the acceptable levels of 41 chemicals and component characteristics are set out in the LCBO Guidelines for Chemical Analysis. Chemical testing, along with organoleptic evaluation, is performed as part of the application process for listing. The LCBO strongly recommends wineries test their wines even if they are not listed in the LCBO.

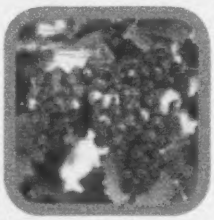
Product Packaging Standards

Federal law establishes standards for the labeling of all wine and VQAO has specific rules for the labeling of VQA wines and the use of descriptive wine terms on labels. The LCBO has established minimum standards for the packaging and labeling of shipping containers. All wines sold in LCBO must conform to these standards. They are set out in the LCBO publication, Product Packaging Standards. Wines not listed at the LCBO must meet federal labeling rules and VQAO rules.

Winery Warehouse Authorization

A winery may, from time to time, establish a warehouse in a location other than the winery. This warehouse may be at another winery or in a location totally separate from any winery. Authority to do so is granted by the LCBO, following receipt of Form LCB 2105, Winery Warehouse Authorization Application and Renewal.

Wineries must follow the conditions of the authorization related to management of the off-site warehouse. The warehouse is for storage purposes only – no sales or marketing activities, or transfer of possession of wine, can take place from the warehouse, and wine can only be delivered to and from the winery, an off-site winery retail store operated by the winery or the LCBO. The manufacturer must keep full records of the inventory and any changes, losses or damages that occur to the inventory. These records must be available to the LCBO at any time.



Audit Services

The LCBO Store and Winery Audit Department conducts independent appraisals of the operations of wineries to ensure compliance with provisions and regulations of the *Liquor Control Act*, the *Liquor Licence Act*, the *Wine Content and Labeling Act* and the *Vintners Quality Alliance Act*. Audits are scheduled to include all wineries in the province at least once a year. An audit includes examining records maintained by the winery pertaining to production methods and quality control, and accounting, reporting of sales and payment of fees by wineries. Audit results are reported to the LCBO, AGCO or VQA Ontario, as appropriate.

The LCBO Store and Winery Audit Department reports to the LCBO about:

- the winery's compliance with regulations stated in the *Liquor Control Act* for production and sales of wine products as outlined in Regulation 717
- the winery's compliance with rules related to the LCBO Direct Delivery program
- verification of the Application to Import Wine in Bulk for blending/bottling
- verification of Winery Warehouse Authorization

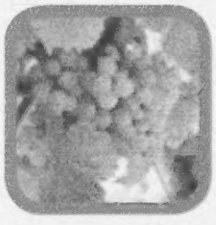
The LCBO Store and Winery Audit Department reports to the AGCO about:

- the winery's compliance with the *Wine Content and Labelling Act, 2000* and its regulations
- the winery's compliance with those aspects of the *Liquor Control Act* and its regulations related to WRS Authorizations
- applications for Manufacturer's Licence

The LCBO Store and Winery Audit Department reports to VQA Ontario about:

- VQA Ontario members' compliance with VQA rules for production, quality, labeling and descriptions of VQA wines (Clause 5(1) of the *Vintners Quality Alliance Act, 1999*)
- the accounting and reporting of certain fees for the total amount of VQA wine sold by members during a specified period

Federal Requirements



The Excise Duty program of the CRA administers the *Excise Act, 2001* – the federal legislation that applies to wine. This legislation controls the production, packaging and possession of wine in Canada. It also imposes excise duty on all wine packaged in Canada unless the wine is produced in Canada from wholly-grown Canadian agricultural, or plant products (may be referred to as 100% Canadian) produced and packaged by or on behalf of a qualified small producer under the act.

Every winery must be licensed before producing, packaging or receiving wine and depending on the operations, additional licences may be needed. There is no fee or security requirement for either of the federal licences required. Licences are valid for a maximum of two years and must be renewed by the licensee.

All licensees are subject to inspection/audit by the CRA to ensure they comply with the *Excise Act, 2001.*

Wine Licence to Produce or Package Wine

Every person who produces or packages wine in Canada must obtain a wine licence issued under the *Excise Act, 2001* unless the wine is produced and packaged by an individual for their personal use.

User's Licence to Fortify Wine

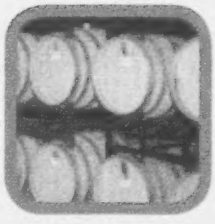
In addition to the wine licence, any wine licensee that fortifies their wines with spirits must obtain a user's licence issued under the *Excise Act, 2001.* The user's licence allows the licensee to use spirits to fortify wine and not pay the excise duty that would otherwise be payable on the spirits used.

For the purpose of treating domestic (Ontario) wine, a manufacturer may use spirits produced from domestic wine, or spirits produced from grain or other food sources, containing at least 94.0% ethyl alcohol by volume. These spirits must be stored in the user's licensed premises, which could be part of the winery.

The fortified wine (port, sherry, etc.) must not exceed 22.9% ethyl alcohol by volume in order to continue to be wine under the *Excise Act, 2001.*

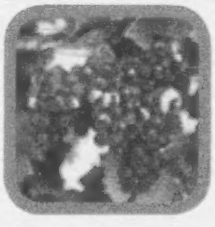
Excise Warehouse Licence to Store Non-Duty Paid Packaged Wine

When a wine licensee packages wine with excise duty imposed under the *Excise Act, 2001* (because it is not 100% Canadian, or it is not produced and packaged by or on behalf of a qualified small producer), the licensee must pay the duty at the time, or enter the package wine into an excise warehouse (where wine would become non-duty-paid packaged wine). The excise warehouse licensee is then liable for excise duty.



Additional Information

Additional information on licensing, licensee authorized activities and responsibilities (including books, records and filing returns) are published in the Excise Duty Memoranda available on the CRA website at *www.cra-arc.gc.ca*



Ontario Excise Duty office contact information is in *Appendix 1.*

Forms and Information

Tables 4-3 and 4-4 provide summaries of regulations, licences and authorizations described in this section.

Table 4-3: Summary of Agencies, Regulations, Licences and Authorizations Governing the Wine Industry in Ontario

Agency	Licence, Permit, Authorizations Letter or Activity
Alcohol and Gaming Commission of Ontario (AGCO)	· Manufacturer's Licence · Winery Retail Store (WRS) Authorization · Liquor Sales Licence (Tied House) · Manufacturer's Limited Liquor Sales Licence (by the glass) · Licence to Represent a Manufacturer · Liquor Delivery Service Licence · *Wine Content and Labelling Act* and Regulations · Advertising Guidelines · Sampling Guidelines and WRS promotions
Liquor Control Board of Ontario (LCBO)	· Off-site warehousing authorizations · Direct delivery authorization · Wine production and sales reporting (winery.reporting@lcbo.com) · Winery audits
Vintners Quality Alliance Ontario (VQA Ontario)	· VQA Ontario Membership · VQA Ontario approval to use regulated terms for each VQA wine · Export certificate for European Union countries
Ontario Farm Products Marketing Commission (OFPMC)	· Processor's Licences for processing grapes, peaches, pears, plums or cherries
Grape Growers of Ontario (GGO)	· Grower and Processor numbers · Application and information at *www.grapegrowersofontario.com/new-grower* or *www.grapegrowersofontario.com/new-processor*
Ontario Tender Fruit Producers' Marketing Board (OTFPMB)	· Support of applicants for a Tender Fruit Processor's Licence
Ontario Ministry of Agriculture and Food	· Beekeeper Certificate of Registration
Canada Revenue Agency (CRA)	· Wine Licence · User's Licence (if required) · Excise Warehouse Licence (if required) · GST/HST · Audit
Ontario Ministry of Finance	· Monthly Wine Tax Return to reflect collection and remittance of wine taxes
Ontario Ministry of the Environment	· Permit to Take Water · Certificate of Approval for Waste Disposal
Ontario Ministry of Health and Long-Term Care	· Food Premises Regulation

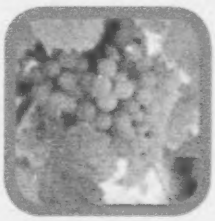


Table 4-4: AGCO Forms and Information

Number	Form
LLB 1958	Monthly Statement by a Manufacturer of Ontario Wine
2086	Application for a Manufacturer's Licence
2071	Corporate Structure Form
2076	Personal History Report
2107	Application Guide for a New or Transferred Manufacturer's Licence
2152	Application Guide for a Licensed Representative's Licence
3099	Liquor Advertising Guidelines – Liquor Sales Licensees and Manufacturers
3161	Municipal Information for a Retail Store Authorization
3162	Application for a Honey Winery On-Site Retail Store Authorization
3163	Application for a Grape Winery On-Site Retail Store Authorization
3164	Application for a Fruit Winery On-Site Retail Store Authorization
3168	Winery Retail Store Information Package
1222	Manufacturer's Limited Liquor Sales Licence
1202	Application and Guide for a New Liquor Sales Licence (Tied House)
2085	Municipal Information form for a Liquor Sales Licence
0122	Agency Letter of Approval (to be completed by fire, building and health authorities or they may do up their own approval letters)

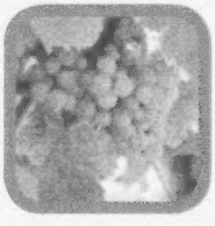
LCBO

LCBO forms and information are at *www.doingbusinesswithlcbo.com*

VQA Ontario

VQA Ontario forms are online and accessible to participating wineries through a secure web interface. Membership application credentials can be obtained from VQA Ontario. Information for prospective wineries is available on the VQA Ontario public website at *www.vqaontario.ca/FutureWineries/Overview*

5. Quality Considerations and Wine Origin and Quality Programs



Quality is the expression of three characteristics – acceptability, authenticity and safety.

The winemaker is responsible for ensuring the customer likes the product, can count on its authenticity every time, and feels confident that the product is safe. Think of quality control as a marketing tool, a way to build and protect the winery's reputation to keep customers coming back – and not as a cost or business constraint.

This section outlines resources for achieving consistent high quality in all of the winery's products.

Importance of Quality Control

Imagine a customer buys a bottle of Maple Manor Merlot 2000 from the LCBO store. They like it and want another. What do they expect from the second bottle? The same quality? Suppose the second bottle is just a bit off. What's their reaction? Will they buy a third bottle? Probably not. More likely, they will try something else.

Or what if you were pouring wine for a guest and a shard of broken glass falls out into the glass. You may be embarrassed and never buy that brand again or, worse, the person may sue the winery for damages.

Quality control ensures that each batch of wine is exactly what the winemaker designed it to be. It assures each bottle of a given wine is the same quality as every other bottle, and that nothing in the bottle will harm consumers or place the winery at risk.

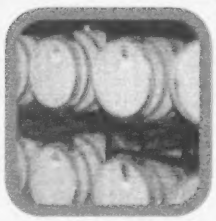
Quality Control Standards

The aesthetic quality of a product is a value judgment, and in winemaking, that judgment is exercised by the winemaker who designs wines to please certain palates. This publication does not define the aesthetic quality of the wine, but provides the winemaker with tools to achieve consistent quality in all of the winery's products.

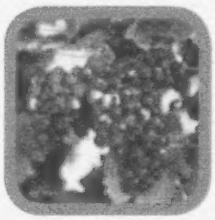
The Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs (OMAF and MRA) publishes a complete reference manual for food manufacturers – Your Guide to Food Processing in Ontario, 2008 – containing useful information on quality control standards, available at *www.ontario.ca*

The Fruit or Juice

Quality wine begins with quality fruit or juice, which must contain the appropriate sugar and tannin levels to achieve the desired results. Grapes are sugar tested at harvest through third-party testing.



The winemaker is responsible for ensuring the grapes or juice for processing are free of pesticide or fungicide residues that might contaminate the wine. The winemaker can insist the vineyard, orchard manager or juice supplier provide a list of chemicals used and the dates they were applied. Each chemical used is assigned a "withdrawal period" or "preharvest interval" – the minimum time between application of the chemical and the harvest of fruit it is applied to. The manufacturer must insist on written assurance that all withdrawal periods have been observed. Follow the product label and be aware that some wineries have more restrictive intervals. The Grape Growers of Ontario has launched a confidential online GrapeTracker spray record keeping system to assist growers in maintaining records to provide to their buyers.



Chemical Testing

The LCBO Guidelines for Chemical Analysis describes 18 wine chemicals and 21 agricultural chemicals that must be tested for in wine. Tolerance levels are described in the LCBO publication, Product Packaging Standards and Guidelines for Chemical Analysis, available from the Quality Assurance Department of the LCBO.

The LCBO offers a wine-testing laboratory service to Ontario wineries at cost, or wineries may use accredited private laboratories to do their testing. The VQA Ontario wine approval process includes a complete analysis by the LCBO laboratory.

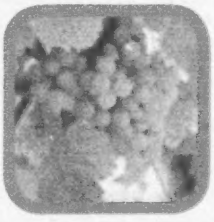
Organoleptic Testing

Taste, subtle flavours, clarity, colour and bouquet are all measurable characteristics that contribute to the quality of wine. This kind of evaluation is routinely done by the winemaker throughout the manufacturing process to ensure the wine is of suitable quality and defects or faults have not developed. This is an important step to ensure the winery consistently produces quality wines that meet consumer expectations and the winery's desired quality profile.

Wine sold through LCBO stores is subject to organoleptic testing by LCBO testers – testing by sight, taste, smell and other sensory perceptions – as part of the application process for listing the product with the LCBO. A sensory evaluation is also required for VQA approval.

Premises Inspection

Tied houses are classed as food premises (any place that food is prepared or served) under the Ontario *Health Protection and Promotion Act*, Food Premises Regulation. Food premises are subject to inspection by the local health unit of the Ontario Ministry of Health and Long Term Care. The Food Premises Regulation sets out standards for building maintenance, lighting, ventilation, equipment, food handling and personnel practices that must be maintained in food preparation and serving establishments. Food premises must provide the local health unit with information and records pertaining to the manufacturing, processing, preparation, storage, handling, display, transportation and distribution of sale or offering for sale of any wine on or in the food premises. Refer to Food Premises Regulation 562 for specific requirements.



Wineries and tasting areas that serve only snack foods such as crackers are exempt from the regulations if the tastings are provided using disposable glassware and food is not prepared for serving. If re-usable glasses are used, washing and sanitation procedures are enforceable under Food Premises Regulation 562.

Food Safety and Quality Control Systems

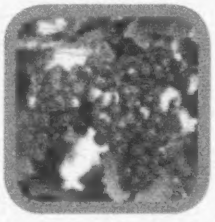
Table 5-1 is a summary of quality control systems described in this section.

Table 5-1: Summary of Quality Control Contacts for All Wines

Quality Control	Responsibility
Chemical Testing	Liquor Control Board of Ontario Quality Assurance Department
Good Manufacturing Practices HACCP	Canadian Food Inspection Agency Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs Global Food Safety Initiative
Food Premises Inspection	Local health unit, Ontario Ministry of Health
VQA Standards	Vintners Quality Alliance Ontario
QC Standards	Fruit Wines of Canada

Good Manufacturing Practices (GMPs)

GMPs are prerequisite program requirements for producing safe, quality food products. GMPs involve developing policies, procedures and verification programs to ensure people and the environment do not present food safety hazards. The food safety-conscious winemaker will institute a program that ensures unwanted hazards such as bacteria, moulds, yeasts and other foreign materials do not contaminate the equipment, ingredients, packaging materials, food contact surfaces and wine products at any stage. GMPs require that all practices related to food safety are documented and the activities recorded. The development and implementation of your GMP program is the foundation of any food safety program. Guidance is available through OMAF and MRA staff, health unit personnel or food safety consultants.



Employee training is critical for a successful food safety program. A training program should be implemented and periodically reviewed to ensure all employees understand their role and responsibility for safe wine production. Training provides consistency among employees to ensure they are following written policies and procedures related to food safety.

Verifying your GMPs is an important aspect of a food safety program to ensure your written program is followed. Verification provides early warnings of any problems and identifies issues that are becoming a trend.

Hazard Analysis Critical Control Point (HACCP)

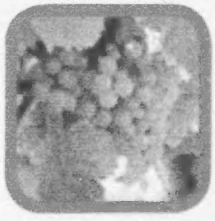
HACCP (pronounced HASSIP) stands for Hazard Analysis and Critical Control Point. HACCP is a science-based food safety system recognized worldwide as the primary means for the enhancement of food safety. This risk based system identifies potential hazards by conducting a hazard analysis – looking at all ingredients, products and processing steps to determine where contamination or hazards are likely to occur. Determining Critical Control Points (CCP) is a step in the process where a control measure can be applied, and is essential to prevent or eliminate a food safety hazard or reduce to an acceptable level. More information on HACCP is available at *www.ontario.ca* or on the Canadian Food Inspection Agency (CFIA) website at *www.inspection.gc.ca*

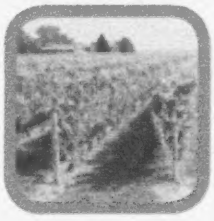
A Safe Winemaking Program guideline has been prepared by the Canadian Vintners Association that is complementary to HACCP principles and specific to wine production.

Food Safety Management Systems

A food safety management system combines the principles of a HACCP system and Good Manufacturing Practices (GMP) prerequisite programs into auditable standard requirements. When seeking certification of your food safety management system, be sure to identify a food safety standard to follow. There are a number of internationally recognized standard requirements to choose from. The CFIA Food Safety Enhancement Program specifies minimum requirements for an effective food safety management system, and is a program typically used by federally registered facilities.

In response to a demand for safe food products, an independent non-profit foundation, the Global Food Safety Initiative (GFSI) was formed, and coordinated by the Consumer Goods Forum. The GFSI foundation benchmarks specific food safety management standards against guidelines established by retailers, food manufacturers, consumers and food safety experts. Since 2007, a number of major retailers have agreed to accept many of the GFSI benchmarked standards.





Selecting a GFSI benchmarked standard is designed to reduce the duplication of audits and differing standard requirements. Here are examples of Food Safety Management System standards:

- CFIA Food Safety Enhancement Program (FSEP)
- GFSI benchmarked schemes
  - SQF 2000 (level 2)
  - BRC
  - FSSC 22000
  - IFS

For more information, consult *www.inspection.gc.ca* and *www.mygfsi.com*

Vintners Quality Alliance Ontario (VQA Ontario)

VQA Ontario was incorporated in 1998 and is authorized under the *Vintners Quality Alliance Act, 1999 (VQA Act)*. It is Ontario's wine authority, responsible for regulating and setting standards for the production of wine made from Ontario-grown grapes.

VQA Ontario's primary function is to establish and maintain an appellation of origin system that allows consumers to identify wines by the origin of the grapes they are made from, and procedures followed in the winemaking process. Each bottle of approved wine displays the appellation of origin (Ontario or a more specific region where grapes were grown) on the front label. Any wine using a term regulated under the VQA regulations must first have approval from VQA Ontario.

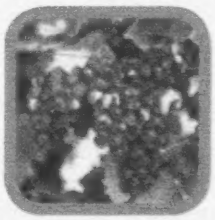
Regulations under the *VQA Act* describe Viticultural Areas (VAs) in Ontario where quality vinifera grapes can be consistently grown. The term Designated Viticultural Area (DVA), though not official, is often used and is synonymous with VA. As of January 1, 2013 there are three DVAs in Ontario defined in the VQA regulations:

- Niagara Peninsula
- Lake Erie North Shore
- Prince Edward County

VQA wines made in these areas that meet all other criteria may be designated:

- VQA Niagara Peninsula VQA
- VQA Lake Erie North Shore VQA
- VQA Prince Edward County VQA

VQA also defines sub-appellations within the Niagara Peninsula DVA and sets rules for the use of claims of more specific origin such as "estate bottled" or a "single vineyard designation". Other areas may apply for DVA designation if they demonstrate a history of successfully growing wine grapes.



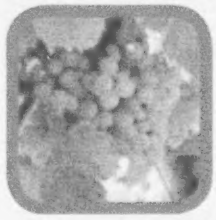
Wine made from grapes grown outside a DVA is eligible for the origin designator VQA Ontario VQA. However, icewine can only be produced within a DVA. Certain wines are not eligible for DVA status and must be labeled only as VQA Ontario – including wines made from authorized hybrid grape varieties (non-vinifera), wines packaged in non-glass containers and certain types of wine such as Charmat method wines.

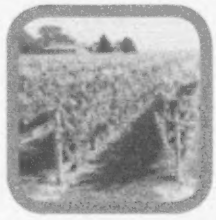
Qualifying wineries that hold a valid Manufacturer's Licence may join VQA Ontario by paying the annual membership dues. Additional operating revenue is raised through a wine approval application fee and a fee payable on every bottle of VQA wine sold. A listing of these fees is available from VQA Ontario (see *Appendix 1*).

Rules governing the VQA designation and related terms are very detailed and are available from the office of VQA Ontario. VQA approval is only granted to wines made from 100% Ontario grapes. For general information purposes only, some of the main requirements for VQA wines are:

- All grapes must be grown in Ontario and be of one or more approved varieties.
- All wines must be entirely fermented, processed, blended, finished and packaged in Ontario.
- Wines made from grapes grown outside a VA, or made with approved hybrid grape varieties, are eligible only for a VQA Ontario descriptor.
- VQA wines designated with a specific vineyard name must be made from Vitis vinifera grapes grown 100% in the named vineyard within a VA.
- "Estate bottled" wines are made entirely from Vitis vinifera grapes grown, fermented, aged and bottled on the estate located within a VA.
- No unauthorized additions of sugar, water or any other substance may be made.
- Records must be kept showing the origin, sugar levels, weight and variety of all grapes used.
- Technical rules are in place for various types of wines, including sparkling wines, sweet wines, varietal wines, etc.

- Strict labeling guidelines must be followed, with certain terms being restricted to approved VQA wines that meet specific criteria. Upon request, VQA Ontario will review labels before printing to ensure they meet VQA labeling guidelines. Restrictions on using regulated terms apply beyond the label and include signage, advertising, websites, and promotional materials. Before using VQA terms, members must submit finished wine for approval, including a taste test, package review and laboratory analysis.
- All wineries are subject to a comprehensive post-approval audit to ensure standards have been met.





For purposes of applying for VQA designation, consult the complete regulations found in Regulation 406/00 of the *VQA Act*.

VQA Ontario regulates the use of a number of terms describing geographic origin and winemaking procedures on the labels of Ontario VQA wines. Wineries must be aware that these terms cannot be used legally on the labels or in any way associated with non-VQA wines. These terms can be found in Regulation 406/00, section 3 of the *VQA Act*. The act and regulations may be downloaded from the Ontario government website at *www.e-laws.gov.on.ca*

Member wineries are required to report VQA sales by litres and retail value to VQA Ontario by the 10th of each month. Wineries are also required to keep records related to both harvesting and winemaking, and produce these records for audit. VQA audits are conducted in conjunction with AGCO audits every five months on a risk-based schedule but at least once per year.

Wineries intending to make VQA wines should contact VQA Ontario early in the planning process, before crushing their first grapes, to learn the requirements. More information is available on the VQA Ontario website at a *www.vqaontario.ca*

Fruit Wine Quality Certified (QC)

Fruit Wines of Canada has developed a rating system to "qualify" fruit wines based on standards such as known fruit-growing area, vintage dating, estate bottling, etc. Qualifying fruit wines are identified by the trademark or status QC for Quality Certified.

Under the *VQA Act*, a **province-designated** fruit wine is prohibited from bearing the provincial geographic indication "ON" (Ontario).

A **Canada-designated** fruit wine bears the geographic indication "Canada" if it is made from only one of the authorized fruit species grown in Canada.

Note: The Quality Certified (QC) program is being operated on a voluntary basis by Fruit Wines of Canada and Fruit Wines of Ontario. Fruit wines bearing the QC label must meet the manufacturing and quality standards set out by the QC program. Fruit wineries must also note that wines made from fruits other than grapes are not eligible for VQA status and are prohibited from using VQA regulated terms, including "Ontario" and other terms of origin. A list of prohibited terms is available on the VQA Ontario website at *www.vqaontario.ca/FutureWineries/Overview*

Categories of fruit wines are shown in Table 5-2. For more information, consult the Fruit Wines of Ontario website at *www.fruitwinesofontario.com*

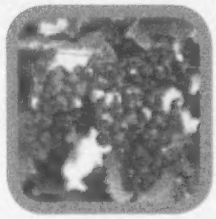
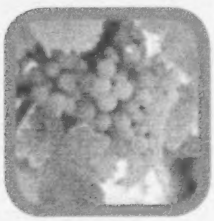


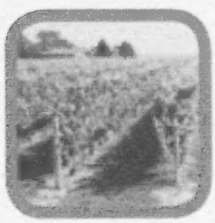
Table 5-2: Categories of Fruit Wines

Category	Characteristics
Fruit Wine	• Not less than 7.1% alcohol
Iced Fruit Wine	• Fermented from juice through cryo-extraction • Note that the term icewine or any variations are not permitted for use to describe fruit wines
Fortified Fruit Wine	• Alcohol content not less than 14.0% alcohol • Added alcohol from a food source distilled to not less than 80% alcohol by volume
Sparkling Fruit Wine	• CO_2 added to minimum of 200 kPa at 10° C • Alcohol content not less than 8.5%
Species Fruit Wine	• Bears the name of authorized fruit species • Has the "character" of the named fruit species • Contains no grape juice • May be single, dual or triple species
Branded Fruit Wine	• Conforms to standards for appropriate designation • Is produced from authorized species • Contains no grape material
Vintage Dated Fruit Wine	• At least 85% of wine must derive from fruit grown in the designated vintage
Estate, Domain or Farm Bottled Fruit Wine	• Made from authorized fruit species only • All fruit grown on land owned or controlled by the bottling winery

QC authorized fruit species include:

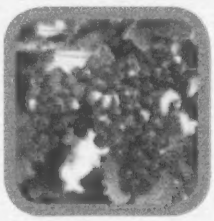
- apples
- apricots
- aronia berries
- bakeapple
- blackberries
- black currant
- black raspberries (wild)
- blueberries
- blueberries (wild)
- boysenberries
- cherries
- chokecherries
- cloudberries (wild)
- cranberries
- dog berries
- elderberries
- gooseberries
- highbush cranberries
- jostaberries
- kiwis
- lingonberries (wild)
- loganberries
- mulberries
- partridge berries (wild)
- peaches
- pears
- pimbina berries
- pin cherries
- plums
- prunes
- raspberries
- red currants
- rhubarb (traditionally considered a fruit)
- Saskatoon berries
- strawberries
- white currants





Note: All fruit species may not be grown in Ontario.

6. Financial Plan



This section provides an overview of the financial plan for starting a winery. More information on financial planning is on the Grape Growers of Ontario website (*www.grapegrowersofontario.com/new-processor*) and Brock University's Cool Climate Oenology and Viticulture Institute (CCOVI) website (*www.brocku.ca/ccovi*). Numbers are updated periodically.

Determining the costs of establishing and operating a winery is a very complex activity. The importance of a well-researched and thought out financial plan cannot be overestimated – for helping obtain adequate financing for a new winery and continuing to operate a profitable winery.

Determining the size of winery and types of wine to suit the local market can be a challenge. The number of different types and styles of wine will impact the startup costs of establishing the winery and influence everything from equipment to brand development. To arrive at a reasonable estimate of the type and size of winery to start with, watch the sales of particular wines to survey the marketplace and consider the competition. This is the job of the marketing plan, discussed in *Section 7*.

Start with a five-year financial plan. It takes time to establish a vineyard, and costs will be incurred before there is sales income. The financial plan should include:

- capital investment for starting a winery, and potentially the vineyard or orchard
- estimated yield capacity of wine from the vineyard and yield required to supply demand
- effect of pricing on gross profit
- projected wine production for five years
- estimates of cash flow for five years
- projected five-year summary of income and expenses

Capital Investment Required

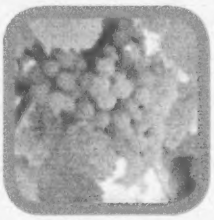
The amount of capital needed to begin a winery depends on many variables – the size and quality of existing buildings, location of the winery, type of winery, variety, style and quantity of wines, new or used equipment, sizes of tanks and equipment, size and location of winery retail store, and so on. All of these affect the amount of capital needed to establish a winery. There are no general startup costs that apply to all wineries – costs may vary from a few hundred thousand to millions of dollars.

Each winery owner must develop their own financial plan for the winery.

Estimating Fruit and Wine Requirements

After determining the quantity and kind of wine to be sold, determine the amount and source of grapes or fruit needed to produce the wine. The amount of each type of grape or fruit needed to produce the desired varieties of wines will affect decisions on size of tanks and capacity of buildings, vineyard/orchard planting, site selection and contracting of grapes or fruit from other growers.

The lengthy establishment period and climatic factors involved in growing grapes or tender fruit are important considerations for the financial plan and will add considerable startup costs. An average vineyard or orchard costs an estimated $30,000 per acre or 0.404 hectares to reach mature production. Detailed cost of production information is available from the OMAF and MRA and GGO websites, listed in *Appendix 1.*



Effect of Pricing on Gross Profit

Profitability is a function of sales volume and gross profit. New businesses often consider reducing the selling price of their products to increase sales in the short term. The purpose of a pricing strategy is to increase profit, not just sales, in the long term. The price of wine affects the gross profit to the winery, assuming there is no loss of sales volume because of price. Finding the proper mix of sales and gross profit will achieve the best overall profitability. This principle is discussed more completely in *Section 7.*

Projected Wine Production, Estimated Cash Flow and Summary of Projected Income and Expenses

Most new wineries focus on direct sales through their winery retail store, private functions and local restaurants, rather than on LCBO sales due to the difference in price markups and volume of wine required to successfully compete at the LCBO. However there are incentives and programs provided by the LCBO to assist small wineries in marketing through the LCBO stores.

Note: Attention should be given to the additional "personal contributions" and operating funds required to purchase product, process wine and manage inventory in addition to the initial capital investment.

Adjustments for a Fruit Winery

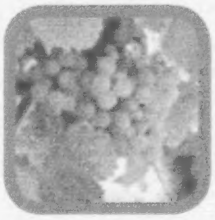
Fruit wineries require the same basic equipment, space and operating considerations as grape wineries. There are some variations to the types of equipment needed:

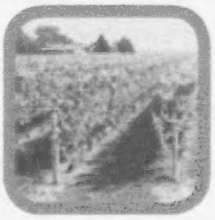
- pulper/chopper rather than destemmer crusher
- stone fruit or cider press
- combination plate/lees filter (20 plate) 40 cm × 40 cm
- oak barrels may not be needed, and oak chips may be substituted

There are opportunities for the entrepreneur in the wine industry. But wineries need a sizeable financial investment to become a profitable business. There is a long establishment period because of the time required to make and age wine, and the need to hold inventory for future sales. Adequate financing and a carefully prepared business plan are critical to the success of a winery.

Individual consideration must be given to each situation. Consider the most recent laws and regulations, along with details on production, marketing, human resources and financial management specific to the winery. See *Section 2* for information on creating a complete business plan for a new winery.

7. Marketing Your Wine and Winery





As a new winery owner, exercise as much care in designing a marketing strategy as in making the wine. All aspects of a winery business are related to marketing a fine wine, and the marketing plan is usually recommended as the first plan to develop in the business plan.

Most new wineries sell their wines directly to the public through their winery retail store. Some also list their wines in upscale local restaurants or in one of the special programs of the Liquor Control Board of Ontario (LCBO).

As the winery grows and sales increase, the winery may choose to increase its exposure by listing some wines with the LCBO stores – exchanging a lower supplier payment on the wine sold for wider recognition and increased sales volumes.

The Four Ps of Marketing

The four Ps of marketing are the elements that define the marketplace for a new winery owner. A marketplace is made up of customers with different tastes and expectations. An entrepreneur has to decide which consumer preferences and markets to appeal to, or whose tastes to satisfy, based on *product, promotion, price* and *place.*

These four elements form 90% of a marketing plan, but the rules are not hard and fast.

The first thing to remember is the goal of a marketing plan is to increase net income. Increasing sales volume is a common way to increase income, or you can increase the price of the product or reduce costs.

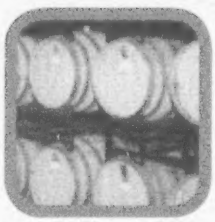
The goal of a good marketing plan is to make more net income. Increasing sales volumes is only one means to that end. Let's look at the four Ps and some questions a new winery owner might consider in developing a marketing strategy.

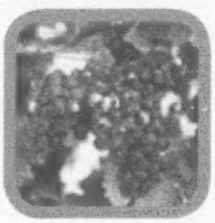
Product

The core products the winery makes are a variety of wines with different characteristics. Let's assume the winery owner can make quality wine and bottle it well. This section does not try to describe a good wine, except to say that if buyers do not find the wine quality acceptable from the outset, the winery will have a very difficult time overcoming that first impression. (*Section 5* outlines quality control programs that address this aspect.)

Consider these questions as you envision your new winery:

- Can the winery consistently produce quality wine?
- What is needed to ensure quality wine every time (an experienced winemaker, grape or fruit varieties, growing location, process knowledge, quality control process, better equipment, etc.)?
- What about the label? Is it attractive to the target customer?
- What about the bottle itself – does the buyer want a 1.5 L bottle or a 750 mL bottle? What feature is most important to the buyer of a 1.5 L bottle?
- What makes the customer try the wine in the first place? If it is being sold through a winery retail store, what ambience attracts the customer? What entices customers to buy the wine? Is there an opportunity to taste wines? Is shopping in the store a pleasant experience?





The product is much more than just the wine. You are selling a complete package of products and services to satisfy customers and bring them back again and again.

Product Packaging

Regulations for cases and cartons, and the printing thereon, are described in the LCBO booklet, Product Packaging Standards. These standards include package size and weight, pallet sizes and loading specifications, standards for tamper-evident packaging, etc.

Universal Product Code (UPC) information is described in a paper by the Canadian Association of Liquor Jurisdictions. New wine manufacturers need a Company (Manufacturer) Number and a UPC Implementation Guide. This information obtained from the Electronic Commerce Council of Canada at *www.gs1ca.org*

Product Labeling

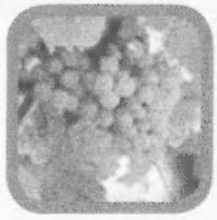
LCBO labeling requirements are described on LCBO Form LCB 1642, Request for Label Examination. The LCBO examines the proposed label and suggests changes needed to comply with the regulations. Form LCB 1642 also contains the request for label examination, and can be ordered from the LCBO Merchandising Division (see *Appendix I*). Standards for food labeling are set by the Canadian Food Inspection Agency (CFIA).

The Request for Label Examination must be received by the LCBO within 21 days of the date of notification that the listing has been conditionally granted.

VQA wines are subject to specific labeling requirements and label review. VQA Ontario reviews labels on request before labels are printed. For VQA wines, VQA Ontario recommends waiting to print labels until the wine approval process is completed and formal label approval is received.

Labeling Wine for Private Sale

All food and beverage labels must meet the standards of the *Canadian Food and Drugs Act* and Regulations and the *Canadian Consumer Packaging and Labeling Act* and Regulations. These standards include the minimum label size, name and description of the product, the net metric volume, name and address of the manufacturer, alcohol strength and country of origin. The detailed labeling requirements for wine are spelled out in the LCBO Product Packaging Standards. This publication also outlines specifications for cartons and cases, date codes, UPC or bar code, and tamper-evident packaging.



Promotion

A promotional plan achieves two goals – attracts customers and reminds them to come back again. Both goals are important. It's not enough that you have good wines, customers need a reason to visit your store or pick up the bottle the first time. There are lots of choices for good wines in wine and liquor stores. How do you create a unique experience around your winery retail store or bottle of wine? Wine as a product is defined by origin and Ontario wineries have the advantage of being local and able to capture a sense of place unique to their winery.

A complete promotional program focuses on three factors:

- creating the expectation
- delivering the product
- getting repeat business

Creating the Expectation

Most communities have an LCBO store stocked with good quality wines. Ask yourself why anyone would go out of their way to go to your winery retail store. The answer is in the desire for something different, more authentic or a better value, or a unique taste experience or connection with the winemaker. Successful promotion involves telling your story.

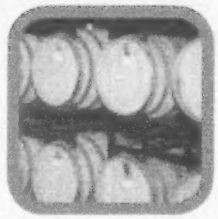
Expectations are created in any number of ways:

- the appearance of the winery store
- the character expressed by the signage
- the advertising message in-store displays and demeanor of the winery staff

A successful promotional program reflects the needs or desires of the community that the winery seeks to serve. Market research helps reveal that information.

Delivering the Product

Signage, advertising, appearance and store location cause buyers to try a bottle of wine. Repeat business depends on the value the customers place on the product. Value is subject to individual judgment based on quality, price, service and "bragging rights." Many wine consumers also see value in distinctness and will differentiate your wine based on specific origin, unusual grape varieties or a unique story of production. The relative importance a person places on these factors determines how they feel about your product.



Value may also express the relationship between the buyer's preference and price. If the buyer is serving wine to dinner guests and receives compliments on the wine by their guests, price may not be the main measure of value. But if the buyer is looking for a bottle of wine for dinner every evening, they may be prepared to sacrifice a little character for a lower price. A promotional program aims to maximize net income, not sales volume.

Getting Repeat Business

Today's wine consumers are educated. They may be enticed to buy their first wines by a clever advertising program, an attractive label or an interesting store, but repeat business requires value inside the bottle. The new winery owner must sell a quality wine the first time. While the customer defines the quality, the astute wine owner must determine and consistently deliver the most important aspect to the most likely buyer.

Many successful wineries use a combination of strategies to attract first-time customers and keep them coming back. Apart from delivering consistent value, little reminders keep your name in front of customers. Special programs, advertised specials, community tastings, sponsorship of and participation in charity events are all useful strategies.

The Role of Tastings

Wineries and winery retail stores regularly conduct wine tastings for interested customers and touring groups. Wine manufacturers are strongly advised to obtain the Sampling Guidelines from the AGCO website and follow them closely when conducting tastings.

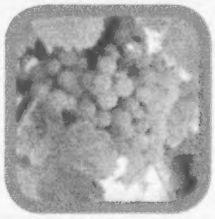
The following suggestions do not have the sanction of any regulatory body but are general guidelines to make tastings a pleasant experience and reduce risks to the winery:

- Limit sampling at any one tasting to no more than four products. A serving should contain no more than 28.4 mL (1 fluid ounce) of wine.
- Use disposable serving glasses during tastings if no facilities are available for washing glasses.
- If glassware is used, clean and sanitize it according to standards outlined in the Ontario *Health Protection and Promotion Act*, Food Premises Regulation 562.
- Ensure staff conducting tastings are at least 18 years old and have received Smart Serve training (see *Section 4*). Smart Serve certification is recommended to train servers to identify alcohol-related problems and reduce risk of liability for the winery.

Wine tastings demonstrate the quality of sampled wines. They also teach consumers how to choose wines for different occasions and how to serve wines with different foods. Well-done tastings are a powerful promotional tool for the new winery.

Tastings at LCBO Stores

Wineries and their agents who market wines through LCBO stores conduct "in-store tastings" from time to time at approved LCBO stores and Combo stores. For complete details see *www.doingbusinesswithlcbo.com*



AGCO Advertising Guidelines

The Alcohol and Gaming Commission of Ontario (AGCO) booklet Advertising Guidelines is recommended for anyone advertising wine or wine products. This guideline outlines the dos and don'ts of alcohol advertising, and covers the many laws governing promotion and advertising of alcoholic beverages. The uninformed manufacturer can easily fall into the trap of appealing to minors, linking alcoholic beverages with sports activities, implying alcohol use in a public place, giving away a free gift or using other promotional tactics inappropriate for advertising alcoholic beverages.

Regulations under the *Liquor Licence Act* permit a manufacturer to advertise liquor (wine) "within specified criteria and in accordance with these guidelines." These guidelines focus on specific criteria for advertising liquor and provide interpretations of the criteria.

Note: It is the responsibility of the manufacturer to ensure any advertising of its business or brand name, or any endorsement by it, falls within the parameters set out by the guidelines. Advertising beyond the scope of the guidelines may result in disciplinary action by the Registrar of Alcohol and Gaming and/or an order of cessation by the AGCO Board. Violations of the *Liquor Licence Act* or its regulations may result in prosecution.

The AGCO Advertising Guidelines are on the AGCO website at *www.agco.on.ca*

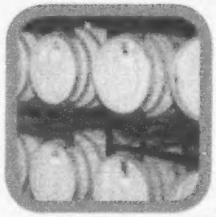
Researching Your Customer Base

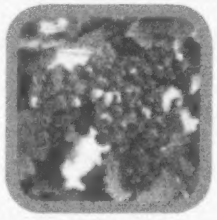
It is easy to spend more money on promotional activities than the winery will receive in additional sales. Follow a planned, properly researched approach to promotion. Market research can reveal what group of consumers is most likely to purchase your wine, and what qualities and services are important to them. This is known as your target market.

Key Areas to Research

- **Product and service features and benefits** – What are you selling? Why would people buy it? What unique features or story makes your wine stand apart?
- **Target market** – How would you describe your customers? What are their wine tastes?
- **Marketing options** – How can you best reach your most likely customers?

- **Existing market demand** – How many potential customers are in your marketing area? How much are they likely to buy (volume and dollars)? What kinds of wine do they prefer?
- **The competition** – Who are they? Who are they selling to? What are their strengths and weaknesses? What is their market share? What are the best-selling wines in your marketplace? Why are they in that position? Where can you be most competitive?
- **Market trends** – What's happening in the industry? How is the industry changing? Is wine consumption increasing, flat or decreasing? Is the trend toward higher- or lower-priced wines? Where does your winery fit?
- **Expected price** – What are the highest, lowest and most common prices? What factors influence price?
- **Expected sales volume** – How much wine will you be able to sell in each of the first three years? What factors influence sales volume?





Customer Research Methods

- **Personal interviews** – This is, perhaps, the most effective research tool for a winery serving a local community. These interviews can be conducted wherever people congregate, on the street or door-to-door. However, don't assume you have interviewed a representative sample of your market or that the views they express will be translated into sales. Many people must be interviewed before you can have a high degree of confidence in the results (see Table 7-1).
- **Focus groups** – This method is often more in-depth and personal than on-the-street or door-to-door interviews, but focus groups are difficult for a beginner to set up and manage, especially if tastings are involved. A licence is needed if focus groups are held off-premises. Otherwise, groups could be held as part of an existing program at a club or special organization – these might even be more representative of your preferred customers than a general sample. Special events on the winery premises can serve as focus groups, but be sure there is ample opportunity for structured, two-way discussions.
- **Telephone blitz** – This method is faster and less expensive than personal interviews, but the results are less reliable. Hire a marketing research consultant or use your own operators to phone a large number of people with structured questions about wine preferences. If you are located in a Viticulture Area or a region where there are many wineries, you may want to ask about winery visits and preferred restaurants. Consult the Canadian Radio-television and Telecommunications Commission before any telephone surveys because Canada enforces a national 'do not call' list.
- **Mail-out/online questionnaires** – This is the lowest-cost option, but has a low rate of return. An added incentive –admission to a special winery program – can increase the return rate. Online surveys may yield a larger rate of return, and free sites like SurveyMonkey® accommodate up to 100 responses.

No matter how you gather market information, a large number of people must be surveyed to have confidence in the results. Table 7-1 indicates the number of respondents in a given population needed to provide a 95% confidence level in the results.

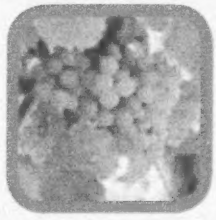


Table 7-1: Statistically Valid Sample Sizes for Market Research

Population	+/-5%	+/-10%
>10,000	400	100
10,000	370	100
5,000	360	95
4,000	355	95
3,000	345	95
1,000	280	90

According to this table, a population of 5,000 people could be sampled accurately if 360 people respond to the survey. The results would be accurate to within 5%. In other words, if 360 people responded to the survey and 180 of them indicated a favourable response to your product, you could expect that between 45% and 55% of the people in the population of 5,000 would react favourably to the same product.

Signs

Effective signage conveys the image of your winery and must be visible where your target market customers can see it. Signs do two things for your winery:

- let people know you are there
- give an impression about the quality of your winery

Road or street signs are regulated by the municipality where your winery is located or by the level of government that owns the road or street in question. Approach these groups for approval before putting signs up (see *Section 3*).

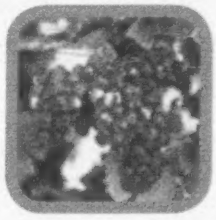
Tourism-Oriented Directional Signs (TODS) bearing your winery's name can be placed along provincial highways if certain conditions are met – the winery must have a tourism focus, be open to the public at specified times and within certain distances from the location of the sign. Annual costs range from $200 to $2,500 depending on location and road type, and the design and manufacture of the sign. For complete information contact Canadian TODS Ltd. at 1-888-263-9333.

Social Media and Web Marketing

Social media and web marketing are good options to consider when developing a marketing plan. These types of marketing offer low-cost, high reach ways for wineries to showcase their product.

Industry Trade Associations

Promoting your business takes a lot of effort. Don't forget you are part of a larger industry and can take advantage of collective marketing efforts. Although Ontario wineries compete with one another, there is considerable wisdom to share, to collaborate and promote Ontario wines. Trade associations run extensive generic marketing programs to promote winery tourism and VQA wines. Associations typically offer regional and individual marketing support to wineries, assistance with "red tape" and promote policies to help Ontario wineries become more successful. Taking advantage of these resources will extend your marketing and management resources.



Price

More businesses fail from poor pricing policies than any other reason. Remember that price reflects product demand and product quality. For example, someone looking for a wine to serve on a special occasion often chooses a $13 to $20 wine rather than a $9 bottle. But if the $20 wine tastes like a $9 wine, that customer is unlikely to buy that wine, or any other under that label, again.

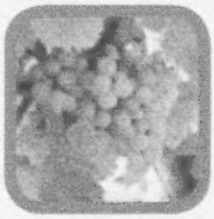
If a $10 bottle contains wine that is worth $20, the winery is not maximizing its return for excellence. If a winery consistently produces $20 wine for a clientele only willing to pay $9, it is time to look for a new market to sell the product. A new label, a more upscale store or even a new name can provide a new image for the quality wines produced.

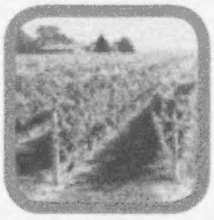
Remember that competitive does not mean cheap when it comes to pricing. Earlier in this section, the relationship between value and price was covered. A low price creates the image of a low-quality wine and attracts a price-sensitive customer who is willing to sacrifice some quality for price. If research indicates you can make more money moving higher volumes at slightly lower quality and price, you might target this type of customer.

But the goal of a marketing strategy is to maximize the net income of the business – not just increase sales volume – through a strategy that looks at the effect of sales volume, price per unit and costs combined. For example, if it costs $7 to produce a $9 wine and 10,000 bottles are sold, the net return on investment would be $20,000. Or, if an increased cost of $3 per bottle (total of $10) produced a $20 wine and only 5,000 bottles were sold at that price, the net return would be $50,000.

These examples do not reflect real situations, but demonstrate the effect of different pricing policies. Consider these questions when pricing your wines:

- Who, specifically, are your target market customers? What are they willing to pay for wine?
- Is your wine priced competitively with other wines of equal quality in the same marketplace?
- Have you considered markup structures, taxes and fees in pricing calculations, and accurately estimated what profit you will retain?
- Does the combination of volume, price and costs result in the highest possible net return on investment?
- Do you need to change your target customer to charge what your wine is worth?
- If your wine is sold at LCBO stores, it must be sold at the established price wherever it is sold. If you only sell your winery retail store, you have more flexibility in pricing. Which route do you want to go? Information on LCBO pricing structure for Ontario wines appears later in this section.
- What support programs are available (i.e. tax incentives) to take advantage of and increase your net return? Information on these programs can be obtained from industry association groups or from government agencies such as LCBO, AGCO or excise officials.





Place

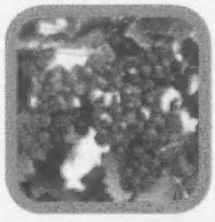
The location of your winery retail store can have a huge impact on sales and the promotional strategies you use to get people in the door. If you are in the Niagara Wine Route and produce VQA wines, you have a great advantage in attracting tourists and face the most competition from other wineries. If you make high-quality fruit wines in Eastern Ontario, and are located off the beaten track, you may need to work harder to link your winery to other tourist attractions, and find restaurants willing to feature your wines.

Locating your winery retail store where it is convenient for your main client base is a distinct advantage. This approach increases your sales volume and makes it harder for a competitor to locate closer to your customers. Wineries cannot count on customer loyalty for very long. Wine drinkers are particularly prone to seek out new taste experiences, so the winery owner must always provide new reasons for customers to return.

The location of your winery is not the only kind of "place" involved in marketing your wines. Unlike many manufactured products, the origin of raw materials used in winemaking plays an important role in the consumer's choice of wine. More engaged and sophisticated wine consumers use wine origin as a cue to quality and a reason to pay a higher price. The locations of your vineyard (or the vineyard you purchase from) can be an important part of your identity and marketing strategy. Specific origin differentiates your wine from others and tells part of the story of its value.

Consider these questions when thinking about getting your product to the customer, and the customer to the product:

- What are the most effective ways to get your wine to the target customers?
- What tourist attractions are nearby that you can tie in with?
- Are there local restaurants that will feature your wines?
- Are there other quality wineries or groups nearby that will cooperate in wine/cheese festivals, gourmet food exhibits, etc.?
- Is there consistent year round retail traffic?
- Beyond your own store, will you look for other methods of distribution?
- Will you sell your wines in other jurisdictions? Other provinces or export? Consider the logistics and cost.
- Are you going to target higher volume sales at wholesale prices through LCBO stores and individual licensees (restaurants) or smaller volumes at retail prices through your winery retail store?



Place can influence your methods of distribution, and there are a number of ways to get your wine to the customer.

Third-Party Carrier Delivery

This type of distribution allows a third-party carrier to deliver wines to homes or businesses on behalf of the winery. Wine must be ordered specifically through the winery retail store to be delivered this way. The price charged must be the same as in the winery retail store plus the third-party delivery charge.

Liquor delivery service operators must have a Liquor Delivery Service (LDS) licence from AGCO. This licence is valid for two years, and may be renewed for three-year periods. The wine delivered must be ordered by, and delivered to, a person 19 years of age or older.

An LDS licence is not available to wineries or winery retail stores. The holder of an LDS licence may not own any financial interest in a winery or a winery retail store. Details are available from AGCO.

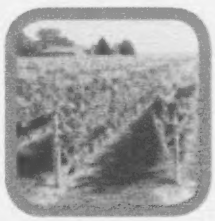
Direct Delivery to Licensed Establishments

A winery retail store (WRS) may not sell directly to licensed establishments. However, wineries may apply to the LCBO for approval to deliver wine directly to licensed establishments on behalf of the LCBO.

Once approved, the winery or someone legally entitled to do so (i.e. manufacturer's representative licensed with AGCO under the *Liquor Licence Act*), may deliver wines directly to licensed establishments.

Information and an application for the Direct Delivery program are available from the LCBO Policy and Government Relations branch (416-864-6817).

Details of pricing and applicable fees are explained under LCBO Pricing later in this section and in the LCBO Direct Delivery Authorization publication and reporting form.



Participation in Licensed Events

Participating in licensed functions or events may be more promotional than sales driven, but getting your best wines served at special community functions can drive future sales. Event organizers are required to ensure the function is held under the authority of an AGCO Special Occasion Permit (SOP) or a Catering Endorsement.

All wine available at the event must be purchased under the organizer's permit/licence from a government store, which includes a winery retail store. The only exception is an event held under the authority of a Public Special Occasion Permit where the applicant is a registered charity or non-profit organization/association – when the event organizer may accept wine donated by the manufacturer.

Positioning Your Product

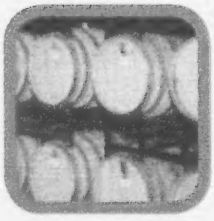
Positioning, in a marketing sense, is designed to make customers think about your winery and your wines as number one, number two, and so on. Positioning is a conscious attempt to impress in customers' minds that your winery is *the* place to go for wine products.

There are different segments for different target markets – fine wines, everyday good value, etc. New winery owners must decide what market segment(s) they want to position their wine in.

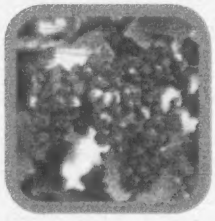
If your primary target customer wants a high quality wine priced accordingly, position your business to offer upscale wines and wineries. Your brand needs to compete within this segment by producing the very finest wine on the market. Work to become, or hire, the best winemaker you can find; design a label that attracts a discriminating buyer; compete for national or international awards; set prices in accordance with high quality; and market to high-end clubs, hotels, corporations and customers. You might also build a winery retail store with an expensive look and a tied house that caters to a fine-dining clientele.

If your goal is to provide customers with a good quality, affordable dinner wine, your vineyard or winery would ideally be located on a busy commuter route. An attractive, highly visible winery retail store, and reputation for great wine at a reasonable price helps entrench your market position. In this market segment, LCBO stores and wine kiosks are your main competitors offering a wide selection and range of prices. Your positioning strategy may be unique wines, competitive pricing, attractively packaged information about each wine and personalized service.

If your vision statement focuses on profit as the highest goal, look for the best combination of quality, price, volume and cost to succeed. A successful positioning strategy depends on understanding your clients and outperforming the competition. What marketing strategies will you use to get there?



To compete successfully, have a flexible positioning strategy. Your sales achievement will be a share of the market, so know what your competitors are offering, how it is being received and how it is affecting your sales. Your marketing efforts can be focused on maintaining your position in the market.



Marketing is a complex and fascinating discipline, and much more than an advertising campaign. Marketing should be calculated to return higher sales volumes and higher profits, not one or the other. Understanding and applying all the principles of sound marketing offers a great advantage in this highly competitive industry.

Exporting Wine

Winemakers often consider the export market when developing marketing strategies and plans. On the surface, exporting offers an opportunity to market wine directly and become known on an international scale. But export markets are difficult to access and full of pitfalls for the new winery owner. Exporting is not recommended for a new winery.

Three main export markets are available to Ontario winemakers:

- U.S. bordering states
- parts of the European Union (EU)
- Asia (mostly China)

Each of these regions have their own specific needs and requirements for imported wines, and exporters must be well informed on requirements that may differ from Canada. Every other wine-producing region in the world is looking for the same opportunity to increase their wine exports – competition is vigorous and focused on quality and price.

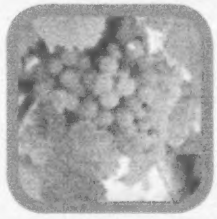
Before considering exports, a winemaker must consider:

- Is the product performing well on the home market?
- Can the product be competitive in the target marketplace?
- Is the product composition, labeling, certification, etc. compliant in the target marketplace?
- Is the product sufficiently unique to create demand in the target marketplace?
- Is the management team prepared to devote time, travel and resources to maintaining a successful export market?
- Can the winery sustain the added cost of export market development?

- Can the winery sustain lengthy credit arrangements and potential default of payment?
- How will entering the export market affect the winery's current marketing strategy?
- What international marketing training and expertise is available to the winery on a long-term basis?

International marketing is an expensive, complex and risky business, and only recommended after a winery has reached a level of market and economic stability in the Ontario marketplace.

Exports to Europe



An Export Certificate is required for any wine being exported from Ontario to countries in the European Union (EU). These certificates are issued by VQA Ontario and available only for VQA wines, according to a trade agreement with the EU.

Export Trade Assistance

Several sources of information and assistance are available to new exporters.

Department of Foreign Affairs and International Trade Canada (DFAIT)
www.dfait-maeci.gc.ca

- Canadian Trade Commissioner Service
- export training and development

Export Development Canada
www.edc.ca

- trade financing and risk management service
- market, customer and competitive intelligence

Canadian Food Exporters Association
www.cfea.com

- helps members determine export readiness
- assists in developing export business

Canadian Vintners Association
www.canadianvintners.com

- promotes Canada's wine sector

International Trade Training Programs

P.R.O.F.I.T. (Program to Raise Ontario Food International Trade) Seminars

- Two-day seminars train new exporters in trading with the United States (seminars run twice yearly)
- Operated by Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs
- Further information at *www.ontario.ca* under trade events and seminars

New Exporters to Border States (NEBS)

- Department of Foreign Affairs and International Trade (DFAIT) program to train new exporters to the United States
- Visit the DFAIT website for more information *www.dfait-maeci.gc.ca*

LCBO Marketing Programs

Ontario wine consumers are sophisticated and used to a broad selection of wines from around the world. Many Ontarians have family roots in traditional wine growing countries and regions. While some consumers are attracted to Ontario wines because they are produced locally, many make wine purchases based on price and quality. Ontario wineries looking to sell to the LCBO must be prepared to compete with the best wines the world has to offer.

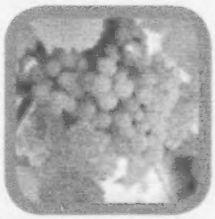
The LCBO is a proud supporter of Ontario wines and has a variety of marketing programs specifically for local wineries. These programs are in addition to regular purchases by LCBO Wines category and Vintages. The LCBO regularly purchases from a large number of Ontario wineries and winery size is not a barrier to doing business with the LCBO.

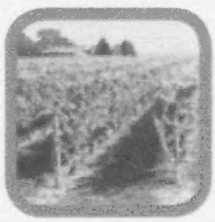
For details on doing business with the LCBO visit *www.doingbusinesswithlcbo.com*

Programs for Ontario wine include:

- **Superstars** is featured in almost 300 stores and includes the promotion of two Ontario VQA wines per month, with dedicated shelving, reduced cost promotional materials and profile in Food and Drink. Featured wines regularly experience 100%+ growth.
- **Vintages Superstar** is featured in 124 stores and includes the promotion of one Ontario Vintages Essential VQA wine per month, with dedicated merchandising, reduced cost promotional materials and profile in Food and Drink. Wines featured regularly experience 100%+ growth.
- **Vintages Local Find** features a VQA wine chosen monthly and highlighted in the biweekly Vintages release catalogue, with personal endorsement by the Ontario wines product manager.

- **Local Talent** features four VQA wines chosen monthly and highlights Ontario's main wine growing regions, varietals and styles.
- **Wines to Watch program** establishes dedicated shelving, marketing and promotions for smaller Ontario wineries across 60 high volume LCBO stores. This program has made it possible for numerous wines to graduate to full LCBO listing status. There are currently 20 wines in the program.
- **Go to Market programs** (in both the Wines category and Vintages) provide an opportunity for small volume VQA wines to sell in as few as a single store. There are currently 62 wines in the program (Vintages, 39 and LCBO Wines, 23).
- **Vintages VQA Flagship In-Store Discovery** offers customers premium-priced, smaller production Ontario wine by releasing them in targeted stores.





Wines listed for sale in the LCBO must meet labeling and packaging standards. Detailed information is available on the LCBO trade resources website at *www.doingbusinesswithlcbo.com*

LCBO Pricing

The LCBO is empowered by the *Liquor Control Act*, the *Liquor Licence Act* and other supporting legislation to:

- Fix the prices at which various classes, varieties and brands of liquor are to be sold and, except in the case of liquor sold through an outlet designated by the Minister of [Canada Revenue Agency] under the *Excise Act* (Canada) as a duty-free sales outlet, such prices shall be the same in all government stores.

The *Liquor Control Act* defines a government store as "any store...authorized...for the sale of spirits, beer or wine." A winery retail store is defined as a government store under the act. This means the LCBO is responsible for establishing pricing policies for all wine sold in the province of Ontario.

There are two principles governing the setting of wine prices in Ontario:

- maintaining uniform prices across Ontario
- establishing a minimum price

Uniform Prices

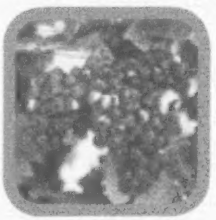
Prices for a specific bottle of wine are uniform in all government stores across the province. The price charged for a bottle of wine sold at the winery retail store must be the same as the price at an LCBO store. Different prices may be charged to consumers at duty free stores or at licensees (including restaurants, bars, nightclubs, conference centres, etc.).

Floor Price

All wine sold in Ontario is subject to a minimum price set out in regulation 116/10 under the *Liquor Control Act*. The regulation establishes a reference rate which is the lowest acquisition cost an operator of a government store will pay for a product, including supplier quote and freight. It is often referred to as the wholesale floor price.

Each March 1st, the minimum price for wine, spirits and beer is indexed based on a three-year average of Ontario consumer price index.

The reference rate for wine and sake in a container of less than 16 litres is currently set at $2.2093 per litre. The reference rate for wine in a container of 16 litres or more is currently set at $0.7844 per litre. The reference rate for fortified wine is $3.0845 per litre for containers with less than 16 litres, and $1.6595 for containers with 16 litres or more. Table 7-2 outlines minimum retail prices for a few standard sizes.



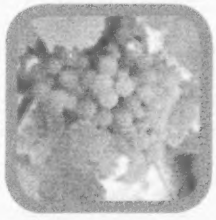
The minimum retail price for wine is determined by applying LCBO markups plus federal and provincial taxes to the reference rate. As a result, the minimum retail prices of wine products can vary among categories (e.g. table vs. sparkling or domestic vs. import), even if all products were acquired at the same reference rate.

Table 7-2: Minimum Retail Price (MRP) for Bottled Wine and Cider

	750 mL	1,500 mL	4,000 mL
Table Wine	$4.85	$9.55	$25.30
Ontario Table Wine	$5.70	$11.30	$29.90
Max. 7% Alcohol	$4.85	$9.55	$25.30
Cider	$3.65	$7.15	$18.90

Pricing Structure for Ontario Wine

The price consumers pay for wine at an LCBO store is made up from seven to 10 of the following components:

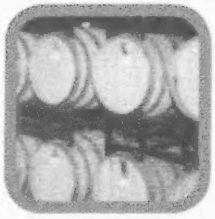


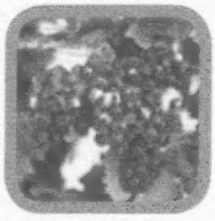
- **Quote** – The price the manufacturer offers its product for to the LCBO. The combined quote and freight must be equal to or greater than the reference rate. No wine may be sold at any outlet below this price, plus applicable taxes.
- **Federal excise duty** – The federal excise duty on wine is charged on the basis of absolute ethyl alcohol per litre. Wine that is 100% Canadian is exempt from excise duty.
- **Federal import duty** – This component applies only to wine imported into Canada.
- **Freight** – Freight charges are imposed on wines being imported from other provinces or countries. The rates vary by type of product and buyer. No freight is charged on wines manufactured by Ontario wineries.
- **LCBO markup** – The variable charge applied to various classes of products. It is a fixed percentage of the total landed cost (the sum of the previous four charges, plus the exchange rate on imported wine). Currently, the LCBO markup is 65.5% for Ontario wines.
- **LCBO wine levy** – This is a flat levy of $1.62 per litre on all wine products. It is not charged on wine coolers, cider or wine creams/flavours.
- **Bottle levy** – Applied on a per-litre basis, according to the class of beverage. Currently, the bottle levy is $0.29 on wine and $0.28 on wine coolers and ciders.
- **Environmental levy** – This levy is applied to all beverages sold in non-refillable containers. Currently the environmental levy is $0.0893 per non-refillable container (bottle).
- **Federal Harmonized Sales Tax (HST)** – This 13% tax applies to all sales of wine.
- **Refundable container deposit** – Based on the size of the container, this deposit is $0.20 for a 750 mL bottle.

The final selling (retail) price of the wine is the sum of these components, rounded up to the next $0.05, as summarized in Table 7-3.

Table 7-3: Components of Price of Wine Sold by LCBO

Price Component	Description
Supplier Quote	**Price at which the supplier offers its product to LCBO**
+ Federal Excise Tax	Duty applied on litre based on alcohol content Exempt for 100% Canadian wines
+ Federal Import Duty	Applies only to imported goods
+ Freight	Rates supplied by LCBO Traffic and Customs Department
= Landed Cost	
+ LCBO Markup	65.5% of Landed Cost
+ LCBO Wine levy	Applied to most wine products at a fixed rate per litre
+ Bottle levy	Applied to all wine products at a fixed rate per litre
+ Environmental levy	Applied to all non-refillable products at a fixed rate per bottle
= Basic Price	
+ Harmonized Sales Tax	Fixed rate of 13% applied to the Basic Price
+ Refundable Container Deposit	Based on container size (750 mL bottle = $0.20)
= Selling or Retail Price	Rounded up to the next $0.05





Pricing at the Winery Retail Store

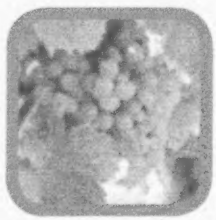
The price for each wine sold in LCBO stores must be the same price charged in the winery retail store. For wines not sold in LCBO stores, the selling price must not be less than the current reference rate for wine (see minimum retail price in Table 7-2). If a winery is de-listing a product, it may apply to the LCBO Senior Vice-President and CFO, Finance and Administration Department for permission to reduce the price temporarily below the minimum price. Keep in mind that a "direct delivery" to a licensee is an LCBO sale.

Wine Taxes Applicable to Winery Retail Store Sales

LCBO markups do not apply to wine sold in a winery retail store. Wine taxes outlined in Part II, of the *Alcohol and Gaming Regulation and Public Protection Act, 1996* (AGRPPA) are paid by purchasers who buy wine from a winery retail store.

The winery collects and remits wine taxes to the Ministry of Finance:

- $0.29 per litre Volume Tax for wine
- $0.28 per litre Volume Tax for wine coolers
- $0.0893 Environmental Tax per non-refillable container
- 6.1% of the retail price of Ontario and 16.1% of the retail price of International Canadian Blend wine (not 100% Ontario wine). Note the retail price for purposes of the 6.1% and 16.1% basic wine tax is the final retail price minus the sum of: all taxes imposed under Part II of AGRPPA, the 13% HST and any container deposit.



Selling Directly to Licensed Establishments

A winery may be authorized by the LCBO to sell wine directly to licensed establishments such as restaurants and bars. These sales are deemed to be LCBO sales, and must be sold at the LCBO established price for each product. Authorized wineries are acting on behalf of the LCBO when they accept orders, deliver products and collect payments. The LCBO requires that they comply with the conditions set out in the Direct Delivery Authorization.

Wines that can be sold directly to licensed establishments fall into two categories:

- non-VQA wines
- VQA wines

Before selling either wine directly, the winery must submit Form LCB 2056, Product Information Summary for each stock-keeping unit (SKU) to the LCBO. At the end of each month, the winery must submit Form LCB 2056 for non-VQA sales and LCB 2055 for VQA sales.

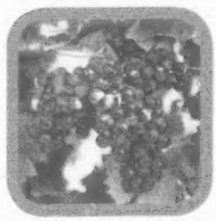
Non-VQA sales are priced at the LCBO price, including all applicable taxes and levies. The winery collects the licensee price on behalf of the LCBO and forwards these proceeds, less their quote and freight rate, to the LCBO each month.

VQA wines are sold under the same rules as non-VQA wines except that, in lieu of the 65.5% LCBO markup and $1.62 per litre LCBO wine levy, the winery pays a 6.0% LCBO administrative fee. Wineries authorized to deliver VQA wines directly to licensees receive the same economic benefit as if the sale were made in the winery retail store.

Table 7-4 gives examples of pricing for winery retail stores, LCBO stores and direct delivery of wines, along with a breakdown of revenue distribution to the supplier and governments involved.

Table 7-4: Pricing Examples by Sales Channel – VQA Wines

Revenue Distribution of Consumer Price	WRS	LCBO	VQA Direct Delivery to Licensee
Winery	$ 10.3453	$ 5.8981	$ 9.2143
Government of Ontario (LCBO)	–	5.39	1.55
Government of Ontario (direct)	1.84	0.90	0.86
Government of Canada	0.56	0.56	0.54
Container Deposit	0.20	0.20	0.20
Total	$ 12.95	$ 12.95	$ 12.36
Detail of Components of Consumer Price			
Supplier Quote/Bottle	$ 10.3453	$ 5.8981	$ 9.2143
Federal Excise Tax (nil for 100% Canadian. wine)	–	–	–
Total Landed Cost	10.3453	5.8981	10.3423
Taxes/Markups			
Ontario Wine Tax	0.6311	–	0.6309
Environment Tax	0.0893	0.0893	0.0893
Bottle Tax	0.2175	0.2175	0.2175
LCBO Wine Tax	–	1.2150	–
LCBO Markup	–	3.8633	–
LCBO Rounding	0.9379	5.3851	0.9377
Basic Price	**$ 11.2800**	**$ 11.2800**	**$ 11.2800**
Discount to Licensees			(1.13)
LCBO Manufacturers' Markup			0.61
			$ 10.76



Federal HST	1.47	1.47	1.40
Container Deposit	0.20	0.20	0.20
Consumer Shelf Price	**$ 12.95**	**$ 12.95**	
Price to Licensee			**$ 12.36**

Pricing Components	Rate	Metric
LCBO Table Markup LCBO	65.5%	ad valorem
LCBO Wine Tax	1.62	per litre
Bottle Tax	0.29	per litre
Environmental Tax	0.0893	per container
Ontario Wine Tax (WRS)	6.1%	ad valorem
HST	13.0%	ad valorem
LCBO Manufacturers Markup	6.0%	ad valorem
VQA Discount to Licensee	10.0%	ad valorem
Container Deposit	0.20 (750 mL size)	per container

Source: Wine Council of Ontario and Liquor Control Board of Ontario, October 2012

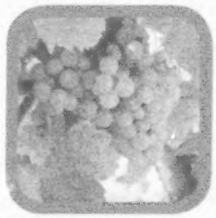


Table 7-5 provides a summary of the various fees and taxes involved in the pricing system, and how these fees and taxes are collected and remitted (see *Section 8*).

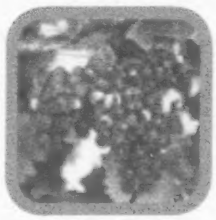
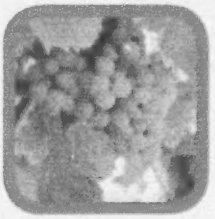


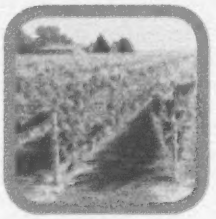
Table 7-5: Wine Fees and Taxes

Fee/Tax Description	Where is Fee/Tax Applied	Who Receives	Other Comments
Payment to Supplier	· Paid to the supplier by LCBO upon shipment	Supplier	
Excise Duties	· Ontario wineries pay excise duty when the product leaves the winery, this duty is included in the price wineries charge the LCBO · Duties are deferred if the wine is transferred between excise warehouses · Duties are due on imported wines when they leave the LCBO's excise warehouse for the retail market · Duty is not payable if product is 100% Canadian or is produced by a qualified small producer (under the *Excise Act, 2001*)	CRA	Since 2006, 0% if the product is 100% Ontario
Import Duties	· At point of entry	CRA	All imported wine products
Freight	· The LCBO does not charge freight for Ontario wine	Trucking, rail or shipping company	
Freight Rebate	· Paid to wine manufacturers on cases of direct delivery of non-VQA wine. The amount is deducted from the LCBO markup	Wine manufacturer	
LCBO Markup	· Added to consumer price	LCBO	Applies on LCBO sales

8. Excise Licence, Duties and Taxes

Federal Excise Duty





Under the *Excise Act, 2001* vintners of all sizes are required to be licensed as wine licensees. Refer to *Section 4* for information on the licence(s) required.

Since July 1, 2006, all wine produced in Canada made from 100% Canadian grown agricultural product is exempt from excise duty. This measure was intended to improve the competitiveness of vintners of 100% Canadian wine. On a typical 750 mL bottle of wine, the measure provides excise duty savings of $0.465 per bottle for producers of 100% Canadian wines.

In addition, all wine produced in Canada and packaged by (or on behalf of) a qualified small producer is except from excise duty.

Application for Excise Tax Licence(s)

To apply for a wine user's and/or excise warehouse licence, complete Form L63, *Licence and Registration Application Excise Act 2001*, available on the CRA website at *www.cra-arc.gc.ca*

Detailed information on licensing is available in Excise Duty Memorandum 2-2-1. Obtaining and Renewing a Licence is available on the CRA website at *www.cra-arc.gc.ca*

Filing an Excise Duty Return and Remitting Duties

Every person licensed under the *Excise Act, 2001* is required to file a return each reporting period for each licence held, and pay any excise duty owing. The return is a summary of the licensee's activities during the reporting period.

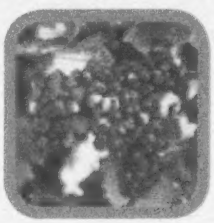
There is a separate return for each licence. For example, a wine licensee who fortifies wine with spirits would file Form B265, Excise Duty Return – Wine Licensee and Form B263, Excise Duty Return – Licensed User each reporting period.

Excise duty returns and payment are due on the last day of the month following the reporting period (e.g. a return for a period ending June 30 is due by July 31). If the due date falls on a weekend or statutory holiday, the return and payment are due on the business day immediately following the due date.

Returns may be made at or sent to any CRA office and must be received by the due date. The date received is the postmark date or the "date received" stamp of a CRA office.

Payments may be made at or sent to any CRA office, or made at a Canadian financial institution; a payment may also be included with an excise duty return. An excise duty remittance voucher must be included with payment unless the payment is included with an excise duty return and made at or sent to a CRA office.

The remittance voucher used depends on the type of payment. The voucher is available in personalized paper format only by contacting Business Window at 1-800-959-5525. The voucher will be one of the following:



1. RC158, Excise Duty Remittance Voucher – Payment on Filing: used to make a payment on filing only (e.g. amount payable on excise duty return)
2. RC159, Excise Duty Remittance Voucher – Amounts Owing: used to make a payment of other amounts only (e.g. instrument testing charges)
3. RC160, Excise Duty Remittance Voucher – Interim Payments: used to make an interim payment (e.g. voluntary payment or audit assessment)

The payment is considered made when it is received by the CRA or an authorized financial institution. The date stamp of the receiving institution is considered the date received. Payments received after the due date will be assessed interest.

Financial institutions accept payments only and do not accept returns. All payments greater than $50,000 must be made at a Canadian financial institution.

Additional information is available in Excise Duty Memorandum 10-1-1, Returns and Payments available on the CRA website at *www.cra-arc.gc.ca*

Rates of Excise Duty

Excise duty rates are determined by absolute ethyl alcohol content by volume. Current rates for wines are:

- not more than 1.2% alcohol is $0.0205 per litre
- greater than 1.2% but less than 7% is $0.295 per litre
- greater than 7% is $0.62 per litre

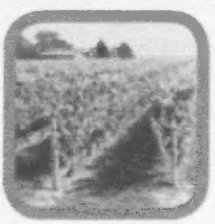
Canada Customs Duty (Tariff)

Customs duties may be imposed on materials or products imported from other nations, and are payable by the importer at the time of importing.

There is no customs tariff assessed against imported fruit juices or concentrates, including grape, either natural or concentrated, whether sweetened with sugar or other sweeteners or unsweetened, or on grape juice for winemaking. This juice must have no spirits added. It may be imported in airtight containers.

Fresh fruit in its natural state is generally free of customs tariffs. Grapes of the species *Vitis labrusca*, some pears and other fruits for processing are subject to customs duties under certain conditions.

In some instances, preferential tariffs apply to fruit from specific countries. A schedule of customs tariffs for all products is available on the CBSA website at *www.cbsa-asfc.gc.ca*



GST/HST

Ontario combined its provincial sales tax with the GST and implemented an HST on July 1, 2010. The HST rate for Ontario is 13% (a 5% federal part and 8% provincial part). HST is collected on all final sales of wine.

GST/HST registrants must charge and account for the HST on taxable supplies (other than zero-rated supplies) of property and services made in Canada. However, where GST/HST registrants make taxable supplies (other than zero-rated supplies) in Canada, and those supplies made in a province where HST applies, they must charge and account for the HST instead of the GST.

A winery with gross sales in excess of $30,000 is required to become a GST/HST registrant. The winery must register with CRA to obtain a GST Business Number (BN) and HST account. Wineries with less than $30,000 may still want to register in order to claim Input Tax Credits (ITCs) for GST/HST paid on their business purchases.

Additional information to help you determine if you should register is available on the CRA website at *www.cra-arc.gc.ca*

You can register for a BN and one or more CRA accounts at the same time. Registration can be done by:

- Internet at *www.cra-arc.gc.ca*
- Calling the CRA Business Inquiries line at 1-800-959-5525 – before calling, be ready to answer all the questions on the forms related to the business number registration form and the accounts you want to open
- Mailing or faxing a completed RC1, Request for a Business Number (BN)

Businesses calculate the total GST/HST owing, subtract the amount paid on qualifying inputs and submit the difference to CRA. A reporting period will be assigned according to the annual taxable sales of the business (see Table 8-1). Businesses may request a shorter reporting period.

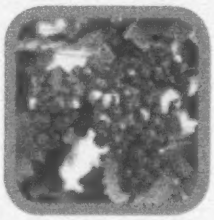


Table 8-1: GST/HST Reporting Periods

Assigned Reporting Periods and Options		
Annual Taxable Sales	**Assigned Reporting Period**	**Optional Reporting Periods**
$1.5 million or less	Annual	Monthly, Quarterly
Over $1.5 million to $6,000,000	Quarterly	Monthly
Over $6,000,000	Monthly	Nil

Businesses with quarterly or monthly filing periods must submit their returns and remit amounts owing not later than one month after the end of each reporting period.

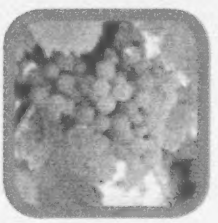
Businesses with an annual reporting period may be required to pay quarterly installments. Installments are due one month after the last day of each fiscal quarter. The annual return is due no later than three months after the end of the fiscal year and the payment is due at the same time if quarterly installments are not required.

Businesses with less than $500,000 in taxable sales may use the simplified method for claiming ITCs. Information on claiming ITCs is available in the CRA publication, General Information for GST/HST Registrants (RC4022E), available at *www.cra-arc.gc.ca*

Table 8-2 provides a summary of forms required for tax, duty and related registrations.

Table 8-2: Excise Duty, HST and Related Forms Required

Description	Number	Title	Contact
Excise Duty Licence(s)	L63	Licence and Registration Application, *Excise Act 2001*	*www.cra-arc.gc.ca*
Excise Duty Returns	B265	Excise Duty Return – Wine Licensee	*www.cra-arc.gc.ca*
	B263	Excise Duty Return – Licensed User	
	B262	Excise Duty Return – Excise Warehouse Licensee	
Excise Duty Remittance Voucher	RC158	Excise Duty Remittance Voucher – Payment on Filing	1-800-959-5525
	RC159	Excise Duty Remittance Voucher – Amounts Owing	
	RC160	Excise Duty Remittance Voucher – Interim Payments	
Business Number/CRA program account	RC1	Request for a Business Number (BN)	*www.cra-arc.gc.ca*
GST/HST Return	GST34E	Goods and Services Tax/ Harmonized Sales Tax Return for Registrants (personalized and paper format only)	1-800-959-5525 *www.cra-arc.gc.ca*
Beer and Wine Tax		Collect and remit wine tax imposed on purchasers purchasing wine in a winery retail store Monthly tax return must be filed	Minister of Finance



Related Websites

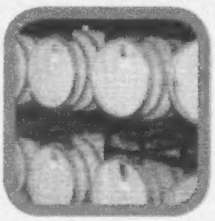
Customs Tariffs: *www.cbsa-asfc.gc.ca*

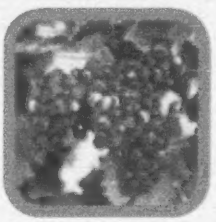
Excise Duty: *www.cra-arc.gc.ca*

GST/HST: *www.cra-arc.gc.ca*

Appendix 1

Government Organizations





Ontario

Alcohol and Gaming Commission of Ontario (AGCO)
90 Sheppard Avenue East, Suite 200-300
Toronto, ON M2N 0A4
416-326-8700
1-800-522-2876
customer.service@agco.ca
www.agco.on.ca

Liquor Control Board of Ontario (LCBO)
43 Freeland Street, 3rd Floor
Toronto, ON M5E 1L7
General Inquiries: 416-365 5855
Vintages: 416-365-5863
Quality Assurance: 416-864-6724,
quality.assurance@lcbo.com
Pricing Administration: 416-365-5862
Questions about merchandising programs or application forms: 416-365-5896
www.doingbusinesswithlcbo.com

Vintners Quality Alliance Ontario (VQAO)
1 Yonge St., Suite 1601
Toronto, ON M5E 1E5
416-367-2002
info@vqaontario.ca
www.vqaontario.ca

Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs (OMAF and MRA)
1 Stone Rd. W
Guelph, ON N1G 4Y2
519-826-4047
1-877-424-1300
ag.info.omafra@ontario.ca
www.ontario.ca/omaf

Ontario Farm Products Marketing Commission (OFPMC)
Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs
1 Stone Rd. W. 5th Floor
Guelph, ON N1G 4Y2
519-826-4220
1-877-424-1300

Ontario Ministry of the Environment (MOE)
135 St. Clair Ave. W
Toronto, ON M4V 1P5
1-800-565-4923

Ontario Ministry of Finance (MOF)
33 King St. W
Oshawa, ON L1H 8H5
1-800-263-7965
List of tax offices:
www.fin.gov.on.ca

ServiceOntario Publications
416-326-5300
Toll free within Canada 1-800-668-9938
TTY toll free within Ontario
1-800-268-7095
www.publications.serviceontario.ca

Canada Business Network
Government Services for Entrepreneurs
www.canadabusiness.ca

Workplace Safety and Insurance Board
www.wsib.ca

WSIB Agricultural Office
100 Stone Rd. W, 2nd Floor
Guelph, ON N1G 5L3
519-575-1382
1-800-387-0750

Canada

Canada Revenue Agency (CRA)
Excise Duty – General Information
10th Floor
5800 Hurontario Street
Mississauga, ON L5R 4B4
1-866-667-9851
Fax: 905-615-2814

Canadian Food Inspection Agency (CFIA)
613-225-2342
1-800-442-2342
TTY 1-800-465-7735
www.cfia-acia.agr.ca

CFIA-AAFC Ontario Division
174 Stone Rd. W
Guelph, ON N1G 4S9
519-837-9400

Appendix 2

Industry Organizations

Grape Growers of Ontario

P.O. Box 100
Vineland, ON L0R 2E0
905-688-0990
info@grapegrowersofontario.com
www.grapegrowersofontario.com

Ontario Tender Fruit Producers' Marketing Board
P.O. Box 100
Vineland Station, ON L0R 2E0
905-688-0990
info@ontariotenderfruit.ca
www.ontariotenderfruit.ca

Wine Council of Ontario (WCO)
4890 Victoria Avenue North
P.O. Box 4000
Vineland Station, ON L0R 2E0
905-562-8070 ext. 0
info@winesofontario.org
www.winecouncilofontario.ca

Fruit Wines of Ontario
9 Crozier Court
Hamilton, ON L8T 2V8
info@fruitwinesofontario.ca

Smart Serve Ontario
5407 Eglinton Ave. W.
Suite 105
Toronto, ON M9C 5K6
416-695-8737
1-877-620-6082 (Toll-free)
www.smartserve.ca

Canadian Vintners Association
440 Laurier Ave. W, Suite 200
Ottawa, ON K1R 7X6
613-782-2283
Fax: 613-782-2283
info@canadianvintners.com
www.canadianvintners.com

Winery & Grower Alliance of Ontario (WGAO)
282 Linwell Road, Suite 210A
St. Catharines, ON L2N 6N5
905-937-9463
www.wgao.ca

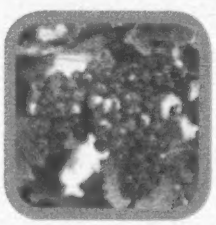
Ontario South Coast Winery & Growers Association (OSCWGA)
P.O. Box 528
Simcoe, ON N3Y 4N5
519-410 WINE (9463)
sunshine@ontariosouthcoastwine.com
www.ontariosouthcoastwine.com

Prince Edward County Winegrowers Association (PECWA)
P.O. Box 6259
Main Street
Picton, ON K0K 2T0
info@thecountywines.com
www.thecountywines.com

Essex Pelee Island Coast (EPIC)
www.epicwineries.com

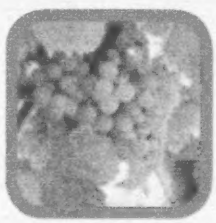
Wineries of Niagara-on-the-Lake
www.wineriesofniagaraonthelake.com

Twenty Valley Wineries
www.20valley.ca/pagelall_in_the_valley



Appendix 3

Educational Institutions



Cool Climate Oenology and Viticulture Institute (CCOVI)
Brock University
500 Glenridge Ave.
St. Catharines, ON L2S 3A1
905-688-5550
www.brocku.ca/ccovi

Loyalist College
Wallbridge-Loyalist Road
P.O. Box 4200
Belleville, ON K8N 5B9
613-962-0633
www.loyalistcollege.com

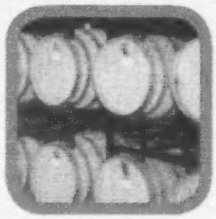
Niagara College
Niagara College Teaching Winery
Glendale Campus
135 Taylor Rd.
Niagara-on-the-Lake, ON L0S 1J0
905-641-2252 ext. 4070
(general inquiries)
www.nctwinery.ca
www.niagaracollege.on.ca

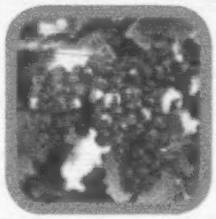
St. Clair College
2000 Talbot Road West
Windsor, ON N9A 6S4
(519) 972-2727
www.stclaircollege.ca

Vineland Research and Innovation Centre (VRIC)
4890 Victoria Avenue North
P.O. Box 4000
Vineland Station, ON L0R 2E0
905-562-0320 ext. 731
info@vinelandresearch.com
www.vinelandresearch.com

Appendix 4

Key Definitions





Designated Viticultural Area (DVA): areas in which quality vinifera grapes can be consistently grown. There are three DVAs in Ontario as defined in the VQA regulations – Niagara Peninsula, Lake Erie North Shore and Prince Edward County.

Estate winery: a winery that sells wine produced from the same owner's vineyard.

Good Manufacturing Practices (GMPs): program requirements for producing safe, quality food products. This involves developing policies, procedures and verification programs to ensure that people and the environment do not present food safety hazards.

Hazard Analysis Critical Control Point (HACCP): a science-based food safety system recognized worldwide as the primary means for the enhancement of food safety. This risk based system identifies potential hazards by conducting a hazard analysis.

Limited Liquor Sales (by the glass): a licence must be obtained by Ontario wineries to sell and serve single servings of their product on the manufacturer's property.

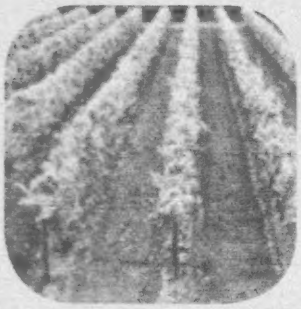
Special Occasion Permit (SOP): permit that must be obtained from the Alcohol and Gaming Commission when wine is being sold or served at a special event, such as a wedding or fundraiser.

Third-Party Carrier Delivery: a third-party common carrier to deliver wines to homes or businesses on behalf of the winery. To be delivered, wines must have been ordered specifically through the winery retail store.

Tied house: a licensed restaurant or food establishment that is situated on the manufacturing site, is owned and operated by the manufacturer, and is "tied" to the winery.

Vintners Quality Alliance Ontario (VQAO): Ontario's wine authority, responsible for regulating and setting standards for the production of wine made from Ontario-grown grapes. Establishes and maintains an appellation of origin system that allows consumers to identify wines based on the origin of the grapes they are made from and procedures followed in the winemaking process.

Winery retail store (WRS): a store operated by the wine manufacturer for sale of their wine. Winery retail stores can be on-site or off-site.



www.ontario.ca/agbusiness

Ontario